

## Broadband Update: Raising Our Long-Term Cable Modem Forecast

### Summary and Investment Conclusion

We are maintaining our 4.5 million 2002 cable modem additions for the U.S. cable sector, but increasing our long-term forecast beginning with 2003. In 1Q02, we saw three separate events impact the future of the cable modem roll-out in the U.S. These events all support our decision to increase our long-term forecast.

- On February 28, @Home shut off its network service and closed its doors, bringing the first major phase in the deployment of residential broadband to an end. Life after @Home will provide the MSOs with better economics and more flexibility to provision tiered speeds and multiple ISPs. We anticipate a surge in weekly installations in 2Q02-4Q02 when compared to the prior year periods. The same acceleration will be evident in seasonally adjusted run-rates.
- Comcast and AT&T Broadband signed very different multiple ISP (Internet service provider) agreements with United Online and EarthLink, respectively, the first of what we believe will be many more multiple ISP agreements among the MSOs.
- The FCC ruled that cable modem service is an "information service" regulated by the FCC under Title I, and not by the local franchise authorities. By not classifying the service as a Title II service, cable companies will not face "common carrier" regulation.

**Our more aggressive modem forecast is somewhat driven by Telecom analyst Simon Flannery's belief that RBOCs are more focused on profitability and ROI than on an aggressive DSL deployment.**

### Internet Access in 2002 and Beyond

We are reiterating our previous estimate of 4.5 million cable modem additions in 2002 in the US. This compares to 3.4 million additions in 2001 and 2.4 million in 2000.

We believe the 4.5 million additions forecasted for 2002 will be back-end loaded in 2002. This is primarily a result of two factors. First, the former @Home affiliates spent much of 1Q02 transitioning customers onto their own networks. Second, Adelphia and Charter are still opening up

significant new footprint for data in 2002 that will increase their addressable subscribers during the year.

**We are raising our long-term modem forecast.** Our new forecast for 2006 cable modem subscribers is 34-35 million versus our previous estimate of 29 million. We believe additions will accelerate approximately 5-10% per year from 2002 through 2006.

**We expect there will be 45 million residential broadband subscribers by 2006, versus 11 million at the end of 2001.**

We view the three events mentioned above as positive data points supporting an accelerating deployment of cable modems. Looking forward, these data points translate to trends that we expect to be evident through the next five years.

- First, the demand for residential broadband access continues to be strong despite flat to rising prices. We believe that the MSOs affected by the @Home transition have re-established their installation rates in March. For the MSOs that did not use @Home, 1Q02 additions are ahead of the 1Q01 pace.
- Second, several operators have signed multiple ISP agreements. In effect the ISPs earn a royalty by upgrading existing dial-up subscribers. For the cable operators, the difference between wholesale and retail RPU is less than the average marketing cost per subscriber over the weighted average life. We expect 8-10% of the 2003 installed base of cable modem subscribers to subscribe via a wholesale package.
- Third, the RBOCs have generally shifted to a more controlled subscriber growth model, highlighting instead regulatory issues and capital spending containment programs. Morgan Stanley Telecommunications analyst Simon Flannery is increasingly cautious regarding the RBOC plans for residential DSL deployment given the RBOCs current focus is profitability and ROIC.

**We believe that approximately half the 90 million Internet subscriptions forecast for 2006 will have broadband access. Of the 45 million residential broadband subscribers**

expected in 2006, we believe cable will take over 75% of the market. Our aggressive market share forecast for the cable industry is somewhat driven by Simon Flannery's belief that annual residential DSL additions will peak in 2002 at 1.7 million. He notes that this trend is ultimately dependent upon how aggressively the RBOCs are willing to push the product.

#### Exhibit 34

#### How'd They Do?

(In Thousands)

Cable Modem Subscribers (In Thousands)

|                 | MS<br>4Q01E | Actual<br>4Q01 | Prior<br>2002E | Revised<br>2002E | Prior<br>2003E | Revised<br>2003E |
|-----------------|-------------|----------------|----------------|------------------|----------------|------------------|
| Adelphia        | 405         | 378            | 787            | 787              | 1,092          | 1,219            |
| AT&T            | 1,571       | 1,512          | 2,396          | 2,292            | 3,432          | 3,564            |
| Cablevision     | 499         | 507            | 754            | 769              | 1,029          | 1,074            |
| Charter         | 620         | 608            | 1,201          | 1,201            | 1,794          | 1,794            |
| Comcast         | 953         | 948            | 1,526          | 1,526            | 2,084          | 2,145            |
| Cox             | 880         | 884            | 1,332          | 1,365            | 1,783          | 1,843            |
| AOL Time Warner | 1,820       | 1,783          | 2,948          | 2,953            | 3,889          | 4,194            |
| Insight         | 90          | 88             | 190            | 171              | 277            | 282              |
| Other           | 675         | 675            | 746            | 785              | 879            | 896              |
| Total           | 7,513       | 7,381          | 11,879         | 11,848           | 16,279         | 17,112           |
| Net Additions   |             |                |                |                  |                |                  |
| Adelphia        | 90          | 62             | 409            | 410              | 305            | 432              |
| AT&T            | 184         | 125            | 884            | 780              | 1,036          | 1,272            |
| Cablevision     | 76          | 84             | 247            | 263              | 275            | 304              |
| Charter         | 112         | 100            | 593            | 593              | 593            | 593              |
| Comcast         | 160         | 155            | 578            | 578              | 558            | 619              |
| Cox             | 101         | 104            | 448            | 481              | 451            | 581              |
| AOL Time Warner | 275         | 238            | 1,165          | 1,170            | 962            | 1,241            |
| Insight         | 5           | 3              | 102            | 83               | 87             | 111              |
| Other           | 225         | 225            | 71             | 110              | 132            | 110              |
| Total           | 1,228       | 1,097          | 4,498          | 4,467            | 4,401          | 5,264            |

E = Morgan Stanley Estimates

By 2006, we expect total residential online users in the U.S. to reach 73-74 million equal to 63-64% penetration of U.S. households. This figure adjusts for subscribers who take both broadband and a dial-up service. Our estimate of 45 million residential broadband subscribers implies that approximately 40% of total U.S. households take broadband access by 2006. We believe the dial-up market is maturing, and after 2002, we expect the total dial-up subscriber base to start to decline approximately 3-5% per year.

#### Breaking Down Broadband

Regulatory and business issues will impact future deployments to a greater extent than technology. Technology has been the key determinant in the cable versus xDSL battle to date. It is unlikely that this competitive advantage will erode in the next two years.

Morgan Stanley wireline analyst Simon Flannery believes the RBOCs indicate they would be more aggressive de-

ploying xDSL if the regulatory environment around wholesale access were revised. Under current regulations, the RBOCs are mandated to offer wholesale access to third-party ISPs. While they are able to negotiate pricing levels on these agreements, 271 approval (approval to offer long-distance service to customers in that state) is somewhat dependent (among other requirements) on state PUC approval of pricing plans and line conversion policies on wholesale xDSL.

However, Simon Flannery does not believe that a change in regulation would immediately lead to more aggressive xDSL deployments. He does not believe the economics of deploying residential xDSL materially improve as a result of a regulatory change. In addition, wholesale access generates a three-month payback for the RBOCs without any start-up operating losses. Rather, Flannery believes that the RBOCs' focus on reducing capital spending and generating free cash flow has led them to slow their DSL deployments. The ILECs' investors are focused on EPS, which is negatively impacted by start-up costs and line upgrade capital associated with xDSL deployments.

An additional cost for the RBOCs related to xDSL deployment is the cannibalization of second phone line service. Despite the lower ARPU on second lines versus xDSL (\$15-20 versus \$45), we estimate that second line service is better than a 75% margin and does not generate start-up costs. This is particularly the case when second line service is layered with high-margin vertical services.

Flannery believes that a more aggressive xDSL deployment by the Bells will only occur when cable telephony competition becomes more of a reality and the RBOCs feel the need to incur losses to protect their installed base.

The higher incremental subscriber acquisition costs on xDSL drove the RBOCs to raise prices in mid-2001 on the product. The cable operators soon followed suit.

- Our assumption is that cable modem and xDSL ARPU remains strong at \$38-45 per month. We expect ARPU to decline modestly beginning in 2004 as wholesale access becomes a meaningful piece of the cable modem business. The xDSL pricing assumes declining access prices offset by incremental value-added services.
- Increased cable telephony penetration could lead to more aggressive xDSL deployments. We do not be-

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lieve, however, that the RBOCs will more aggressively market or discount xDSL until the economics improve or they feel the need to defend their installed base of local lines.

We project 45 million residential broadband subscribers in 2005, versus 11 million at the end of 2001. Of this 2005 total of 45 million, we expect cable to serve 35 million, with xDSL serving the remaining 10 million. This continued share lead by cable is due to a combination of factors. These include the lead that cable has built to date; the low churn on high-speed data, leading to more difficult xDSL conversions from cable; and the RBOCs' continued focus on its commercial customers, the regulatory environment, and long-distance entry.

#### **@Home Ends and Self-Reliance Begins**

AT&T, Cox, and Comcast, @Home's largest affiliates, were the companies most affected by the accelerated transition off the @Home network in 1Q02. To a lesser extent, Adelphia and Charter were also affected in 1Q02.

There were two separate transitions that occurred. First, operators provisioned connectivity to their data subscribers using their own IP provisioning system, primarily their own owned fiber. Second, cable operators ported e-mail addresses, and replaced subscribers old @Home.net email addresses with their own proprietary model.

**The US cable operators that performed this hasty transition met with varying levels of success.** However, we do not believe that the RBOCs were nimble enough in their marketing — and, more importantly, in their provisioning capability — to take advantage of service interruptions during the cable transition.

#### **Leveraging Core Competency Through a Multiple ISP Strategy**

By 2003 we expect 15% of the total US cable modem subscriber base to come via wholesale arrangements. These arrangements between the MSOs and unaffiliated ISPs, we believe, will allow the cable industry to accelerate its unit growth while improving the overall economics. For most MSOs the discount on the wholesale ARPU is smaller than the reduction of marketing and customer service costs.

Higher EBITDA per subscriber under wholesale agreements is somewhat offset by the fact that the customer relationship is with a third party and potential future revenues would likely go to the ISP rather than the MSO. The current

agreements by Comcast, AT&T Broadband, and Charter however, have allowed the MSO to retain the billing relationship.

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**Multiple ISPs mitigate, somewhat, the zero-sum game that Internet access represents for AOL and the MSOs by allowing both sides to benefit from their respective core competencies.**

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During 1Q02, Comcast and AT&T Broadband announced multiple ISP agreements and commercial launches with United Online and EarthLink, respectively. These deployments add to the existing agreements at AOL Time Warner (set in motion through the merger agreement) and Charter's partnership with Microsoft's MSN. All these agreements differ, with the exception that all have been structured with terms quite favorable to the cable operator.

Generally speaking, the terms of each agreement hinge on the capabilities of the ISP. For example, EarthLink owns regional data centers and other content and connectivity assets. In contrast, United Online owns very little network assets and outsources much of its own customer service.

We believe the Comcast agreement with United Online is in essence a turnkey wholesale agreement. United Online will market the service to the subset of its existing 1.5 million dial-up subscribers that reside within Comcast's footprint. If these subscribers upgrade to a United broadband service via Comcast's cable modem, Comcast performs the installation, bills the customer, operates the customer service, and manages the entire network flow of traffic. The subscriber retains its United email address, and the home page is a United home page. Under this arrangement, United's only acquisition cost is the marketing expense, which we expect to be insignificant on its existing dial-up base.

We expect that Comcast receives revenue of more than \$35 per month per subscriber on these United broadband subscribers, with United taking the difference between the gross revenue and its payment to Comcast. The latter also saves the typical \$150 in marketing costs it incurs on its new broadband subscribers.

**All the signed multiple ISP agreements differ, with the exception being that the terms are quite favorable for the cable operators.**

The new agreement between AT&T Broadband and EarthLink, while limited to only two markets thus far, also presents the cable operator with compelling economics. Rather than a turnkey model, AT&T Broadband is really only carrying the traffic from the home to EarthLink's regional data centers. In addition, AT&T Broadband performs the installation work and some tier 2 customer service. However, all the tier 1 service and marketing costs are incurred by EarthLink. AT&T Broadband retains the billing relationship.

Again, AT&T Broadband benefits by eliminating its marketing costs. EarthLink, who is responsible for marketing under this agreement, will incur very little marketing expense. This is due to the fact that EarthLink is primarily marketing to the portion of its existing 4.2 million dial-up subscribers that are in AT&T Broadband's systems. By maintaining a billing relationship with the subscriber, AT&T Broadband does not pay the strategic costs associated with any of its own broadband subscribers that churn to EarthLink.

#### **Impact of Revised Forecast on AOL**

By 2006, we expect that AOL will have 8.0-8.5 million broadband subscribers and 25 million dial-up subscribers. Of the 8.0-8.5 million broadband subscribers, we expect 5.5-6.0 million to be via cable modem access and the remainder from xDSL. This implies that AOL will serve 24% of the residential xDSL market by 2006 and 17% of the cable modem subscriber base.

AOL's lack of traction with the cable operators regarding carriage agreements continues to be a risk to our growth expectations for AOL. Even if agreements were announced today with other MSOs, major deployments would not begin until 2003. Our revised cable modem forecast indicates that cable will be a larger player in residential broadband than we had previously expected. As a result, AOL's existing agreements with several ILECs will be less valuable in moving AOL into broadband. We continue to believe that the U.S. MSOs will benefit from AOL agreements with both strong economics (higher ROIC) and increased unit growth.

Note that AOL may not require bundled broadband subscribers to realize the upside in value from broadband. The EBITDA contribution from an AOL dial-up and a bundled broadband subscriber, on just the access piece of the revenue stream, is essentially the same. The incremental value is in the higher advertising and e-commerce revenues that come from broadband. AOL may be able to realize some of this value in a "bring your own access" model, which does not require any bundled broadband agreements with other MSOs.

#### **Regulatory Clarity, for Now...**

On March 14, 2002, the FCC issued a Declaratory Ruling (DR) and Notice of Proposed Rulemaking (NPR) establishing the classification of cable modem services as an "information service." This has the following ramifications on the cable and broadband industries:

- Cable modem service falls under the FCC's regulatory jurisdiction, not the local franchise authorities (LFAs).
- As an "information service," cable modem service falls under Title I of the Communications Act. This is consistent with the FCC's recent proposal to classify Internet service provided by the ILECs as an "information service" as well.
- Again, as an "information service," cable operators will not be subject to common carrier regulation, which would have been the case if the service had been classified a "telecommunications service" regulated under Title II.
- By stripping the service from the LFAs' regulatory jurisdiction, the FCC also noted that franchise fees should no longer be charged and collected by the cable operators and passed through to the LFAs. This has typically been approximately 5% of gross modem revenue.

In general, these aspects of the ruling represent an overwhelming victory for the US cable industry. The uncertainty created by various LFAs' views on broadband has been removed, and the FCC has stated that common carrier status will not exist for the cable operators even if MSOs are offering ISPs pure telecommunications services. This is a proactive statement, assuming that the relationship between operators and ISPs evolves into more-comprehensive service agreements.

In addition, the DR stated that LFAs should not be forcing cable operators to collect franchise fees on cable modem service. It did not specify when the MSOs should eliminate this charge from their bills, and the LFAs will likely appeal the decision. There is also no clarity on what will be done with the fees already collected. The majority of MSOs book franchise fees net, so there is no impact on reported revenue and EBITDA. For companies that report franchise fees gross, there will be a reduction in revenue, no reduction in EBITDA, and an increase in EBITDA margin.

Now that the FCC has defined cable modem service, it will begin to evaluate how, if at all, it should be regulated. In essence, the FCC brought cable modem service into its own regulatory umbrella, but left the regulatory framework open for discussion and development.

#### **Risk of Regulatory Parity with the ILECs**

A potential concern for the cable operators is the specific point made by the FCC that it would explore the idea of creating a more consistent analytical framework and "regu-

latory parity" across multiple broadband platforms. The RBOCs, in particular, have been applying pressure in this area.

The RBOCs believe that either the cable operators should be required to unbundle their network elements for competitive service providers, or the RBOCs should no longer be required to do so. In late March, Commissioner Abernathy, in a separate statement, pointed out that the RBOCs and the cable operators are "competing in a converged broadband marketplace," and therefore should face a more-consistent regulatory framework regarding access requirements.

Given FCC Chairman Powell's positioning on broadband, we would expect that if the FCC moves toward regulatory parity, would ease regulatory requirements on the RBOCs rather than place regulatory requirements on the cable operators. It is likely that both the cable operators and the CLEC industry will together lobby to maintain the status quo on RBOC regulation.

## Exhibit 35

## US Cable Modem Forecast, Quarterly

(In Thousands)

|                        | Actual Results, Not Adjusted for Pending Acquisitions |        |        |        |        |        |        |        |
|------------------------|---|--------|--------|--------|--------|--------|--------|--------|
|                        | 1Q01  | 2Q01   | 3Q01   | 4Q01   | 1Q02E  | 2Q02E  | 3Q02E  | 4Q02E  |
| Adelphia               | 3,581   | 4,173  | 4,660  | 5,247  | 6,016  | 6,784  | 7,553  | 8,322  |
| AT&T                   | 15,466  | 14,047 | 14,482 | 14,937 | 15,469 | 16,002 | 16,534 | 17,066 |
| Cablevision            | 2,303   | 2,558  | 2,762  | 2,975  | 3,238  | 3,501  | 3,765  | 4,028  |
| Charter Communications | 5,689   | 6,191  | 6,480  | 7,561  | 8,181  | 8,801  | 9,421  | 10,041 |
| Comcast                | 7,913   | 7,956  | 9,624  | 10,400 | 10,676 | 10,953 | 11,229 | 11,506 |
| Cox Communications     | 7,756   | 8,385  | 8,739  | 9,057  | 9,301  | 9,545  | 9,789  | 10,033 |
| Insight Communications | 1,568   | 1,607  | 1,673  | 1,709  | 1,806  | 1,903  | 2,000  | 2,097  |
| AOL Time Warner        | 14,321  | 16,177 | 15,985 | 15,792 | 16,297 | 16,801 | 17,306 | 17,810 |
| Other                  | 4,000   | 4,500  | 5,000  | 7,500  | 7,500  | 7,500  | 7,500  | 7,500  |
| US HSCDS Homes Passed  | 62,596  | 65,595 | 69,405 | 75,177 | 78,484 | 81,790 | 85,096 | 88,402 |
|                        |   |        |        |        |        |        |        |        |
| Adelphia               | 197   | 243    | 315    | 378    | 475    | 560    | 664    | 787    |
| AT&T                   | 1,280   | 1,346  | 1,387  | 1,512  | 1,681  | 1,863  | 2,065  | 2,292  |
| Cablevision            | 304   | 368    | 423    | 507    | 572    | 637    | 703    | 769    |
| Charter Communications | 305   | 386    | 508    | 608    | 715    | 858    | 1,020  | 1,201  |
| Comcast                | 542   | 676    | 793    | 948    | 1,042  | 1,185  | 1,354  | 1,526  |
| Cox Communications     | 587   | 668    | 779    | 884    | 994    | 1,098  | 1,228  | 1,365  |
| Insight Communications | 63  | 73     | 85     | 88     | 97     | 113    | 142    | 171    |
| AOL Time Warner        | 1,100   | 1,310  | 1,545  | 1,783  | 2,082  | 2,316  | 2,615  | 2,953  |
| Other                  | 400   | 430    | 450    | 675    | 685    | 715    | 750    | 785    |
| US HSCDS Subscribers   | 4,779   | 5,500  | 6,285  | 7,381  | 8,343  | 9,345  | 10,541 | 11,848 |
| Growth %               | 127.6%  | 116.1% | 98.2%  | 84.5%  | 74.6%  | 69.9%  | 67.7%  | 60.5%  |
|                        |   |        |        |        |        |        |        |        |
| Adelphia               | 48  | 46     | 72     | 62     | 98     | 85     | 104    | 124    |
| AT&T                   | 132   | 66     | 41     | 125    | 169    | 182    | 202    | 228    |
| Cablevision            | 65  | 64     | 55     | 84     | 65     | 65     | 66     | 66     |
| Charter Communications | 89  | 81     | 122    | 100    | 107    | 143    | 163    | 180    |
| Comcast                | 142   | 134    | 117    | 155    | 94     | 143    | 169    | 172    |
| Cox Communications     | 105   | 81     | 111    | 104    | 111    | 104    | 130    | 137    |
| Insight Communications | 33  | 10     | 12     | 3      | 9      | 16     | 29     | 29     |
| AOL Time Warner        | 220   | 210    | 234    | 238    | 299    | 234    | 299    | 338    |
| Other                  | -57   | 30     | 20     | 225    | 10     | 30     | 35     | 35     |
| HSCDS Additions        | 779   | 721    | 785    | 1,097  | 962    | 1,002  | 1,196  | 1,308  |

(1) Figures are on an as reported basis. E = Morgan Stanley Research Estimates

## Exhibit 36

## US Cable Modem Forecast, Annual

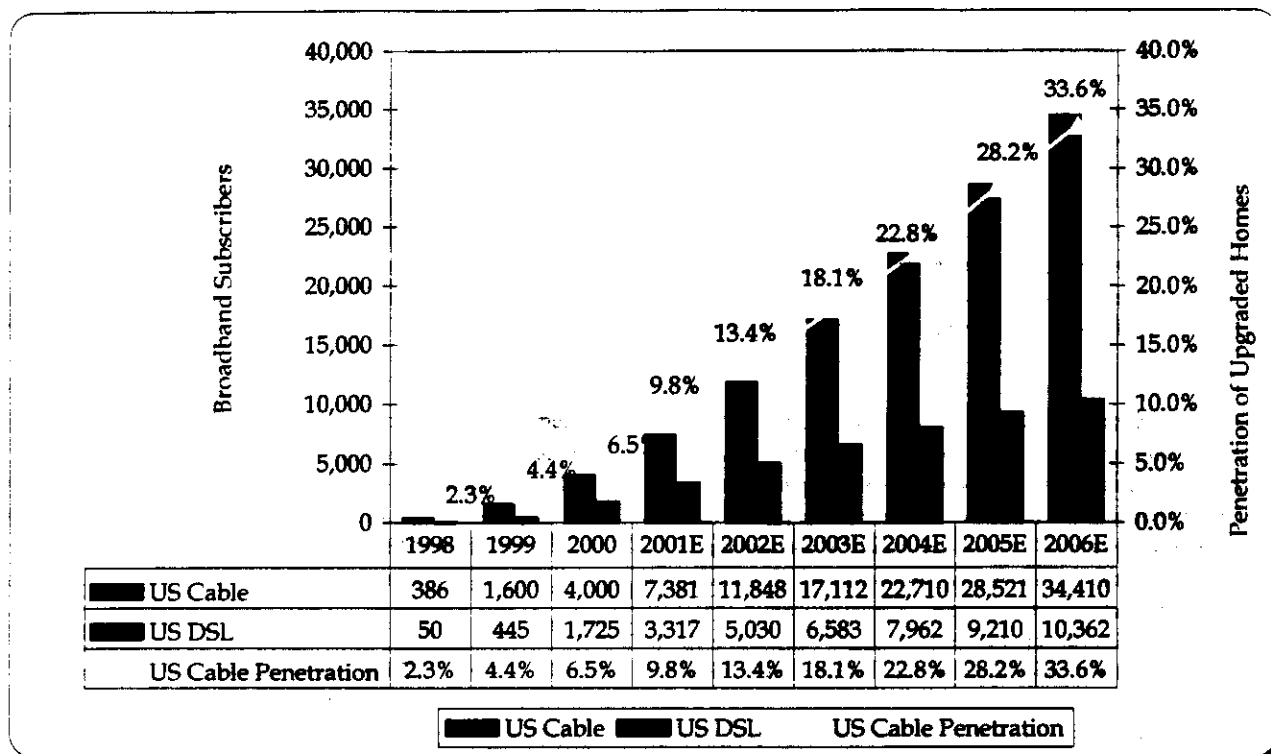
(In Thousands)

|                              | Pro Forma     |               | 2002E         | 2003E         | 2004E         | 2005E          | 2006E          |
|------------------------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|
|                              | 2000          | 2001E         |               |               |               |                |                |
| Adelphia                     | 3,716         | 5,247         | 8,322         | 8,447         | 8,573         | 8,702          | 8,832          |
| AT&T                         | 13,949        | 14,937        | 17,066        | 20,949        | 24,370        | 24,735         | 25,106         |
| Cablevision                  | 2,000         | 2,975         | 4,028         | 4,518         | 4,581         | 4,645          | 4,710          |
| Charter Communications       | 5,551         | 7,561         | 10,041        | 10,938        | 11,856        | 12,070         | 12,287         |
| Comcast                      | 6,744         | 10,400        | 11,506        | 11,678        | 11,854        | 12,031         | 12,212         |
| Cox Communications           | 7,123         | 9,057         | 10,033        | 10,183        | 10,336        | 10,491         | 10,648         |
| Insight Communications       | 1,204         | 1,709         | 2,097         | 2,128         | 2,160         | 2,193          | 2,226          |
| AOL Time Warner              | 13,830        | 15,792        | 17,810        | 18,077        | 18,349        | 18,624         | 18,903         |
| Other                        | 7,500         | 7,500         | 7,500         | 7,500         | 7,500         | 7,500          | 7,500          |
| <b>US HSCDS Homes Passed</b> | <b>61,617</b> | <b>75,177</b> | <b>88,402</b> | <b>94,418</b> | <b>99,579</b> | <b>100,991</b> | <b>102,424</b> |
|                              |               |               |               |               |               |                |                |
| Adelphia                     | 149           | 378           | 787           | 1,219         | 1,715         | 2,243          | 2,756          |
| AT&T                         | 954           | 1,512         | 2,292         | 3,564         | 5,057         | 6,485          | 7,899          |
| Cablevision                  | 239           | 507           | 769           | 1,074         | 1,367         | 1,657          | 1,944          |
| Charter Communications       | 229           | 608           | 1,201         | 1,794         | 2,457         | 3,139          | 3,897          |
| Comcast                      | 479           | 948           | 1,526         | 2,145         | 2,767         | 3,499          | 4,249          |
| Cox Communications           | 482           | 884           | 1,365         | 1,945         | 2,550         | 3,188          | 3,802          |
| Insight Communications       | 52            | 88            | 171           | 282           | 402           | 532            | 673            |
| AOL Time Warner              | 880           | 1,783         | 2,953         | 4,194         | 5,390         | 6,663          | 7,963          |
| Other                        | 537           | 675           | 785           | 896           | 1,006         | 1,116          | 1,227          |
| <b>US HSCDS Subscribers</b>  | <b>4,000</b>  | <b>7,381</b>  | <b>11,848</b> | <b>17,112</b> | <b>22,710</b> | <b>28,521</b>  | <b>34,410</b>  |
| Growth %                     | 150.0%        | 84.7%         | 60.5%         | 44.4%         | 32.7%         | 25.6%          | 20.6%          |
|                              |               |               |               |               |               |                |                |
| Adelphia                     | 111           | 229           | 410           | 432           | 496           | 527            | 514            |
| AT&T                         | 592           | 558           | 780           | 1272          | 1494          | 1428           | 1414           |
| Cablevision                  | 239           | 268           | 263           | 304           | 293           | 290            | 287            |
| Charter Communications       | 163           | 379           | 593           | 593           | 663           | 682            | 758            |
| Comcast                      | 320           | 469           | 578           | 619           | 622           | 733            | 749            |
| Cox Communications           | 278           | 402           | 481           | 581           | 604           | 638            | 615            |
| Insight Communications       | 44            | 36            | 83            | 111           | 120           | 130            | 142            |
| AOL Time Warner              | 573           | 903           | 1170          | 1241          | 1196          | 1273           | 1301           |
| Other                        | 80            | 138           | 110           | 110           | 110           | 110            | 110            |
| <b>HSCDS Additions</b>       | <b>2,400</b>  | <b>3,381</b>  | <b>4,467</b>  | <b>5,264</b>  | <b>5,598</b>  | <b>5,811</b>   | <b>5,889</b>   |

E= Morgan Stanley Research Estimates

Exhibit 37

## Cable Modem vs. xDSL Forecast, Residential Only



E= Morgan Stanley Research Estimates

## Exhibit 38

## Internet Access Forecast, 1999-2006E

|  | 1999              | 2000              | 2001              | 2002E             | 2003E             | 2004E             | 2005E             | 2006E             |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Households</b>                        | 105,418,879       | 106,894,744       | 108,391,270       | 109,908,748       | 111,447,470       | 113,007,735       | 114,589,843       | 116,194,101       |
| <b>Growth</b>                            |                   | 1.4%              | 1.4%              | 1.4%              | 1.4%              | 1.4%              | 1.4%              | 1.4%              |
| <b>Subscribers</b>                       |                   |                   |                   |                   |                   |                   |                   |                   |
| Residential DSL                          | 376,588           | 1,724,724         | 3,316,523         | 5,030,375         | 6,582,764         | 7,982,423         | 9,209,615         | 10,362,459        |
| Business DSL                             | 132,308           | 704,465           | 1,047,323         | 1,502,580         | 1,944,132         | 2,324,945         | 2,658,445         | 2,956,897         |
| <b>Total DSL</b>                         | <b>508,876</b>    | <b>2,429,189</b>  | <b>4,363,846</b>  | <b>6,532,955</b>  | <b>8,526,896</b>  | <b>10,287,368</b> | <b>11,868,060</b> | <b>13,319,356</b> |
| Cable Modem                              | 1,600,000         | 4,000,000         | 7,381,357         | 11,848,287        | 17,111,790        | 22,710,076        | 28,520,849        | 34,409,977        |
| <b>Total Broadband</b>                   | <b>2,108,876</b>  | <b>6,429,189</b>  | <b>11,745,203</b> | <b>18,381,242</b> | <b>25,638,687</b> | <b>32,997,443</b> | <b>40,388,909</b> | <b>47,729,333</b> |
| Dial-Up                                  | 33,574,728        | 40,916,688        | 46,536,752        | 50,307,095        | 49,441,808        | 47,849,063        | 45,736,339        | 43,561,672        |
| Internet Subscriptions                   | 35,683,604        | 47,345,877        | 58,281,955        | 68,688,337        | 75,080,495        | 80,846,506        | 86,125,248        | 91,291,005        |
| Dial-Up Overlap                          | (1,054,438)       | (3,214,595)       | (5,872,602)       | (7,531,611)       | (9,345,972)       | (11,185,862)      | (13,033,528)      | (14,868,634)      |
| <b>Total Subscribers</b>                 | <b>34,629,166</b> | <b>44,131,283</b> | <b>52,409,354</b> | <b>61,156,726</b> | <b>65,734,523</b> | <b>69,660,644</b> | <b>73,091,720</b> | <b>76,422,371</b> |
| <b>Total Residential Subscribers</b>     | <b>34,496,858</b> | <b>43,426,818</b> | <b>51,362,030</b> | <b>59,654,146</b> | <b>63,790,390</b> | <b>67,335,899</b> | <b>70,433,274</b> | <b>73,465,474</b> |
| <b>Subscription Market Share</b>         |                   |                   |                   |                   |                   |                   |                   |                   |
| Residential DSL                          | 1%                | 4%                | 6%                | 7%                | 9%                | 10%               | 11%               | 11%               |
| Business DSL                             | 0%                | 1%                | 2%                | 2%                | 3%                | 3%                | 3%                | 3%                |
| <b>Total DSL</b>                         | <b>1%</b>         | <b>5%</b>         | <b>7%</b>         | <b>10%</b>        | <b>11%</b>        | <b>13%</b>        | <b>14%</b>        | <b>15%</b>        |
| Cable Modem                              | 4%                | 8%                | 13%               | 17%               | 23%               | 28%               | 33%               | 38%               |
| <b>Total Broadband</b>                   | <b>6%</b>         | <b>14%</b>        | <b>20%</b>        | <b>27%</b>        | <b>34%</b>        | <b>41%</b>        | <b>47%</b>        | <b>52%</b>        |
| Dial-Up                                  | 94%               | 86%               | 80%               | 73%               | 66%               | 59%               | 53%               | 48%               |
| <b>Subscription Net Additions</b>        |                   |                   |                   |                   |                   |                   |                   |                   |
| Residential DSL                          |                   | 1,348,156         | 1,591,799         | 1,713,852         | 1,552,389         | 1,379,658         | 1,247,192         | 1,152,844         |
| Business DSL                             |                   | 572,157           | 342,858           | 455,257           | 441,553           | 380,813           | 333,500           | 298,452           |
| <b>Total DSL</b>                         | <b></b>           | <b>1,920,313</b>  | <b>1,934,657</b>  | <b>2,169,109</b>  | <b>1,993,942</b>  | <b>1,760,471</b>  | <b>1,580,693</b>  | <b>1,451,296</b>  |
| Cable Modem                              |                   | 2,400,000         | 3,381,357         | 4,466,930         | 5,263,503         | 5,968,285         | 6,810,773         | 7,889,128         |
| <b>Total Broadband</b>                   | <b></b>           | <b>4,320,313</b>  | <b>5,316,014</b>  | <b>6,636,039</b>  | <b>7,257,445</b>  | <b>7,358,757</b>  | <b>7,391,466</b>  | <b>7,340,424</b>  |
| Dial-Up                                  |                   | 7,341,960         | 5,620,064         | 3,770,343         | (865,287)         | (1,592,746)       | (2,112,724)       | (2,174,666)       |
| <b>Total</b>                             | <b></b>           | <b>11,662,273</b> | <b>10,936,078</b> | <b>10,406,382</b> | <b>6,392,158</b>  | <b>5,766,011</b>  | <b>5,278,742</b>  | <b>5,165,758</b>  |
| <b>Annual Subscription Growth</b>        |                   |                   |                   |                   |                   |                   |                   |                   |
| Residential DSL                          |                   | 358%              | 92%               | 52%               | 31%               | 21%               | 18%               | 13%               |
| Business DSL                             |                   | 432%              | 49%               | 43%               | 29%               | 20%               | 14%               | 11%               |
| <b>Total DSL</b>                         | <b></b>           | <b>377%</b>       | <b>80%</b>        | <b>50%</b>        | <b>31%</b>        | <b>21%</b>        | <b>15%</b>        | <b>12%</b>        |
| Cable Modem                              |                   | 150%              | 85%               | 61%               | 44%               | 33%               | 26%               | 21%               |
| <b>Total Broadband</b>                   | <b></b>           | <b>205%</b>       | <b>83%</b>        | <b>56%</b>        | <b>39%</b>        | <b>29%</b>        | <b>22%</b>        | <b>18%</b>        |
| Dial-Up                                  |                   | 22%               | 14%               | 8%                | -2%               | -3%               | -4%               | -5%               |
| <b>Total</b>                             | <b></b>           | <b>33%</b>        | <b>23%</b>        | <b>18%</b>        | <b>9%</b>         | <b>8%</b>         | <b>7%</b>         | <b>6%</b>         |
| <b>5-Yr. Forward Subscription Growth</b> |                   |                   |                   |                   |                   |                   |                   |                   |
| Residential DSL                          |                   | 38%               | 25%               | 17%               | 13%               | 11%               | 9%                | 7%                |
| Business DSL                             |                   | 30%               | 22%               | 16%               | 12%               | 10%               | 9%                | 7%                |
| <b>Total DSL</b>                         | <b></b>           | <b>36%</b>        | <b>24%</b>        | <b>17%</b>        | <b>13%</b>        | <b>11%</b>        | <b>9%</b>         | <b>7%</b>         |
| Cable Modem                              |                   | 47%               | 35%               | 27%               | 21%               | 17%               | 13%               | 10%               |
| <b>Total Broadband</b>                   | <b></b>           | <b>43%</b>        | <b>32%</b>        | <b>24%</b>        | <b>19%</b>        | <b>15%</b>        | <b>12%</b>        | <b>9%</b>         |
| Dial-Up                                  |                   | 2%                | -2%               | -4%               | -4%               | -4%               | -3%               | -2%               |
| <b>Total</b>                             | <b></b>           | <b>12%</b>        | <b>9%</b>         | <b>7%</b>         | <b>6%</b>         | <b>6%</b>         | <b>5%</b>         | <b>5%</b>         |
| <b>Household Penetration</b>             |                   |                   |                   |                   |                   |                   |                   |                   |
| Residential DSL                          |                   | 2%                | 3%                | 5%                | 6%                | 7%                | 8%                | 9%                |
| Cable Modem                              |                   | 4%                | 7%                | 11%               | 15%               | 20%               | 25%               | 30%               |
| <b>Total Residential Broadband</b>       | <b></b>           | <b>5%</b>         | <b>10%</b>        | <b>15%</b>        | <b>21%</b>        | <b>27%</b>        | <b>33%</b>        | <b>39%</b>        |
| Dial-Up (excluding overlap)              |                   | 35%               | 38%               | 39%               | 36%               | 32%               | 29%               | 25%               |
| <b>Total Penetration</b>                 | <b></b>           | <b>41%</b>        | <b>47%</b>        | <b>54%</b>        | <b>57%</b>        | <b>60%</b>        | <b>61%</b>        | <b>63%</b>        |

Source: Company reports and Morgan Stanley estimates.

E= Morgan Stanley Research Estimates

Broadband Cable Television – April 5, 2002

Please see the important disclosures at the end of this report.

## Residential Telephony Update

### A Look at Our Telephony Forecasts

Cox and AT&T currently have the largest deployments of circuit switched telephony. While other operators, such as Comcast and Charter, have acquired systems with residential telephony operations (from AT&T), they have not had Cox and AT&T's years of expertise.

In 2002, we expect the industry to begin generating positive EBITDA on the residential telephony business, which is almost entirely due to margin improvements on AT&T Broadband's business. As for commercial telephony, we expect a surge in EBITDA growth during 2002. Many of the MSOs with commercial telephony businesses have made the choice to slow the business and focus on improving EBITDA margins. A large part of the projected EBITDA growth in 2002 is due to much lower expected start-up losses on Comcast's commercial telephony business.

### Updates on Circuit Switched Deployments

Cox began marketing its residential telephony business in 1997, and we estimate that the company generated EBITDA losses through 2000. During 2000, the company made the decision to focus on driving penetration in its existing markets, rather than launch new markets. The residential telephony business is now generating positive EBITDA and enhancing the growth rate of the entire company. We estimate margins in 2001 averaged 20% and should reach 30% in 2002.

We estimate AT&T Broadband generated EBITDA losses of \$345 million on its residential telephony business in 2001. The company has made the decision not to launch new telephony markets and instead focus on driving penetration in existing markets. We believe that Cox's strategy regarding its residential telephony business is a good precedent for the revised AT&T strategy. We expect AT&T Broadband can begin to generate positive EBITDA on that business. In 2003, we estimate total telephony EBITDA of \$270 million, which would provide about 600 basis points of margin improvement for AT&T Broadband, or about one-third of the total expected margin improvement.

We believe that by focusing on its existing markets, AT&T can follow Cox's lead and eliminate the start-up costs related to launching new markets and therefore begin to generate positive EBITDA. For Cox, residential telephony not

Exhibit 39

### Cox Residential Telephony Summary

|                      | 1999     | 2000     | 2001    | 2002E   |
|----------------------|----------|----------|---------|---------|
| Avg. Telephony Subs  | 64,176   | 169,955  | 349,113 | 558,385 |
| Telephony ARPU       | \$57.98  | \$52.03  | \$50.06 | \$47.81 |
| Total Telephony Rev. | \$43.1   | \$106.1  | \$207.9 | \$320.3 |
| Direct Costs         | 29.8     | 64.6     | 100.2   | 148.9   |
| Gross Margins        | 31.0%    | 39.1%    | 51.8%   | 53.5%   |
| EBITDA               | (\$14.8) | (\$17.1) | \$40.7  | \$83.3  |
| EBITDA Margin        | NM       | NM       | 19.6%   | 26.0%   |

Source: Morgan Stanley Research Estimates

Exhibit 40

### AT&T Broadband Residential Telephony Summary

|                      | 2001    | 2002E     | 2003E     | 2004E     |
|----------------------|---------|-----------|-----------|-----------|
| Avg. Telephony Subs  | 772,000 | 1,331,752 | 2,024,651 | 2,825,596 |
| Telephony ARPU       | \$53.43 | \$53.28   | \$53.28   | \$53.28   |
| Total Telephony Rev. | \$495.0 | \$844.7   | \$1,294.5 | \$1,806.6 |
| Direct Costs         | 274.4   | 401.2     | 603.7     | 841.4     |
| Gross Margins        | 44.6%   | 52.5%     | 53.4%     | 53.4%     |
| EBITDA               | (370.5) | 48.2      | 323.6     | 612.4     |
| EBITDA Margins       | NM      | 5.7%      | 25.0%     | 33.9%     |

Source: Morgan Stanley Research Estimates

only enhances total revenue and EBITDA growth, but it is also an important product in the bundle. Cox has indicated that three-product customers have the lowest churn rates.

Cox's San Diego system reached over 100,000 residential telephony customers in 1Q02, covering about 535,000 cable homes. The San Diego system is about 75% upgraded for residential telephony services, with the remainder expected to be telephony ready by the end of 2002. The Regional Bell operator in that system is Pacific Bell. Cox offers its customers about a 10-20% discount per month on the primary phone line versus Pacific Bell. In addition, Cox does not charge for non-toll calls, while Pacific Bell customers pay a per-minute fee.

While Insight has also deployed a circuit-switched telephony product, the economics of the product are different from that of AT&T and Cox. Insight sells local bandwidth to AT&T under their telephony agreement. Insight does not bear marketing and G&A expenses and therefore will not experience start-up losses. However, the telephony product is offered on a co-branded basis. At the end of 2001, Insight had about 7,500 residential telephony customers. We do not expect the telephony product to have a significant impact on Insight's revenue and operating cash flow in 2002.

## Exhibit 41

**Residential Telephony Deployments, 1998-2006E**

(In Thousands)

| Telephony Homes Passed                   | Pro Forma |       |        | 2001E  | 2002E  | 2003E  | 2004E  | 2005E  | 2006E  |
|--|-----------|-------|--------|--------|--------|--------|--------|--------|--------|
|  | 1998      | 1999  | 2000E  |        |        |        |        |        |        |
| Adelphia                                 | 0         | 0     | 0      | 0      | 0      | 502    | 2,241  | 5,169  | 5,246  |
| AT&T Broadband (incl. MediaOne)          | 139       | 785   | 4,990  | 6,419  | 8,958  | 12,192 | 15,520 | 15,753 | 15,990 |
| Cablevision                              | 18        | 103   | 147    | 157    | 236    | 991    | 1,746  | 2,480  | 4,463  |
| Charter                                  | 0         | 0     | 0      | 0      | 69     | 415    | 1,802  | 3,209  | 5,327  |
| Comcast                                  | 0         | 0     | 0      | 0      | 144    | 511    | 2,150  | 5,191  | 7,637  |
| Cox Communications                       | 611       | 1,150 | 2,427  | 3,338  | 4,038  | 4,749  | 5,470  | 6,202  | 6,295  |
| AOL Time Warner                          | 0         | 0     | 0      | 0      | 0      | 1,011  | 3,226  | 6,996  | 11,633 |
| Insight Communications                   | 0         | 0     | 0      | 214    | 761    | 1,324  | 1,866  | 1,894  | 1,923  |
| Total                                    | 768       | 2,038 | 7,563  | 10,128 | 14,286 | 21,694 | 34,021 | 46,895 | 58,514 |
| Growth %                                 |           |       | 271.1% | 33.9%  | 40.3%  | 52.7%  | 56.8%  | 37.8%  | 24.8%  |
| <b>Residential Telephony Subscribers</b> |           |       |        |        |        |        |        |        |        |
| Adelphia                                 | 0         | 0     | 0      | 0      | 0      | 15     | 116    | 387    | 749    |
| AT&T Broadband (incl. MediaOne)          | 10        | 74    | 533    | 1,011  | 1,653  | 2,397  | 3,254  | 3,923  | 4,465  |
| Cablevision                              | 2         | 9     | 12     | 13     | 17     | 33     | 75     | 134    | 175    |
| Charter                                  | 0         | 0     | 0      | 0      | 5      | 34     | 155    | 318    | 619    |
| Comcast                                  | 0         | 0     | 0      | 0      | 11     | 49     | 205    | 572    | 1,046  |
| Cox Communications                       | 28        | 102   | 245    | 454    | 663    | 894    | 1,143  | 1,403  | 1,619  |
| AOL Time Warner                          | 0         | 0     | 0      | 0      | 0      | 76     | 319    | 874    | 1,764  |
| Insight Communications                   | 0         | 0     | 0      | 6      | 47     | 117    | 222    | 314    | 393    |
| Total                                    | 40        | 185   | 790    | 1,484  | 2,396  | 3,616  | 5,488  | 7,924  | 10,831 |
| <b>Penetration of Upgraded Homes</b>     |           |       |        |        |        |        |        |        |        |
| Adelphia                                 | NM        | NM    | NM     | NM     | NM     | 3.0%   | 5.2%   | 7.5%   | 14.3%  |
| AT&T Broadband (incl. MediaOne)          | 7.2%      | 9.5%  | 10.7%  | 15.8%  | 18.4%  | 19.7%  | 21.0%  | 24.9%  | 27.9%  |
| Cablevision                              | 11.4%     | 8.6%  | 8.2%   | 8.5%   | 7.4%   | 3.4%   | 4.3%   | 5.4%   | 3.9%   |
| Charter                                  | NM        | NM    | NM     | NM     | 7.5%   | 8.2%   | 8.6%   | 9.9%   | 11.6%  |
| Comcast                                  | NM        | NM    | NM     | NM     | 7.5%   | 9.6%   | 9.5%   | 11.0%  | 13.7%  |
| Cox Communications                       | 4.6%      | 8.9%  | 10.1%  | 13.6%  | 16.4%  | 18.8%  | 20.9%  | 22.6%  | 25.7%  |
| AOL Time Warner                          | NM        | NM    | NM     | NM     | NM     | 7.5%   | 9.9%   | 12.5%  | 15.2%  |
| Insight Communications                   | NM        | NM    | NM     | 2.8%   | 6.1%   | 8.8%   | 11.9%  | 16.6%  | 20.5%  |
| Penetration of Upgraded Homes            | 5.2%      | 9.1%  | 10.4%  | 14.7%  | 16.9%  | 16.7%  | 16.1%  | 16.9%  | 18.5%  |
| <b>Subscriber Additions</b>              |           |       |        |        |        |        |        |        |        |
| Adelphia                                 |           | 0     | 0      | 0      | 0      | 15     | 101    | 271    | 362    |
| AT&T Broadband (incl. MediaOne)          |           | 64    | 459    | 478    | 642    | 744    | 858    | 669    | 542    |
| Cablevision                              |           | 7     | 3      | 1      | 4      | 16     | 41     | 60     | 41     |
| Charter                                  |           | 0     | 0      | 0      | 5      | 29     | 121    | 163    | 302    |
| Comcast                                  |           | 0     | 0      | 0      | 11     | 39     | 155    | 367    | 475    |
| Cox Communications                       |           | 74    | 143    | 209    | 210    | 231    | 249    | 259    | 216    |
| AOL Time Warner                          |           | 0     | 0      | 0      | 0      | 76     | 243    | 556    | 889    |
| Insight Communications                   |           | 0     | 0      | 6      | 41     | 70     | 105    | 92     | 80     |
| Total                                    |           | 145   | 605    | 694    | 912    | 1,220  | 1,873  | 2,436  | 2,907  |

E= Morgan Stanley Research Estimates

## Exhibit 42

## US Cable Telephony Revenue and EBITDA Forecast, 1998-2006E

Dollars in Millions

|                                      | Pro Forma |         |         |         |         |         |         |         |
|--------------------------------------|-----------|---------|---------|---------|---------|---------|---------|---------|
|                                      | 1999      | 2000    | 2001    | 2002E   | 2003E   | 2004E   | 2005E   | 2006E   |
| <b>Residential Telephony Revenue</b> |           |         |         |         |         |         |         |         |
| Adelphia                             | \$0.0     | \$0.0   | \$0.0   | \$0.0   | \$8.5   | \$63.7  | \$225.8 | \$472.6 |
| AT&T Broadband                       | 43.6      | 137.0   | 495.0   | 844.7   | 1,294.5 | 1,806.6 | 2,294.5 | 2,681.5 |
| Cablevision                          | 4.8       | 4.0     | 10.8    | 14.0    | 26.4    | 57.9    | 107.7   | 165.8   |
| Charter Communications               | 0.0       | 0.0     | 0.0     | 1.7     | 13.0    | 63.0    | 161.5   | 332.1   |
| Comcast                              | 0.0       | 0.0     | 0.0     | 3.9     | 21.0    | 88.3    | 270.0   | 560.5   |
| Cox Communications                   | 43.1      | 106.1   | 207.9   | 320.3   | 433.7   | 549.4   | 683.3   | 807.3   |
| Insight Communications               | 0.0       | 0.0     | 0.7     | 6.8     | 21.2    | 42.9    | 66.2    | 88.2    |
| AOL Time Warner                      | 0.0       | 0.0     | 0.0     | 0.0     | 34.1    | 172.6   | 512.3   | 1,122.5 |
| US CATV Industry Revenue             | 91.6      | 247.1   | 714.4   | 1,191.3 | 1,852.3 | 2,844.3 | 4,321.3 | 6,230.6 |
| Growth Rate                          | NM        | 170%    | 189%    | 67%     | 55%     | 54%     | 52%     | 44%     |
| <b>Residential Telephony EBITDA</b>  |           |         |         |         |         |         |         |         |
| Adelphia                             | 0.0       | 0.0     | 0.0     | 0.0     | (16.5)  | (32.1)  | (29.3)  | 65.1    |
| AT&T                                 | (302.0)   | (522.1) | (370.5) | 48.2    | 323.6   | 612.4   | 901.2   | 1,092.0 |
| Cablevision                          | (8.3)     | (13.7)  | (7.3)   | (6.7)   | (8.0)   | (3.2)   | 12.0    | 37.7    |
| Charter Communications               | 0.0       | 0.0     | 0.0     | (3.7)   | (15.2)  | (27.4)  | 0.3     | 36.1    |
| Comcast                              | 0.0       | 0.0     | 0.0     | (11.9)  | (22.0)  | (21.8)  | 9.2     | 116.4   |
| Cox Communications                   | (14.8)    | (17.1)  | 40.7    | 83.3    | 130.9   | 183.1   | 243.9   | 310.1   |
| Insight Communications               | 0.0       | 0.0     | 0.1     | 6.7     | 17.8    | 30.8    | 42.6    | 57.6    |
| AOL Time Warner                      | 0.0       | 0.0     | 0.0     | 0.0     | (25.5)  | (5.8)   | 51.8    | 217.5   |
| US CATV Industry Revenue             | (325.2)   | (552.9) | (337.1) | 116.1   | 385.0   | 735.9   | 1,231.7 | 1,932.4 |
| Growth Rate                          | NM        | NM      | NM      | NM      | NM      | 91%     | 67%     | 57%     |
| <b>Commercial Telephony Revenue</b>  |           |         |         |         |         |         |         |         |
| Adelphia                             | \$0.0     | \$10.0  | \$25.0  | \$30.7  | \$32.3  | \$33.9  | \$35.6  | \$37.4  |
| AT&T Broadband                       | 0.0       | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Cablevision Lightpath                | 72.7      | 95.6    | 131.2   | 142.9   | 168.0   | 197.2   | 217.7   | 242.7   |
| Charter Communications               | 0.0       | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Comcast Business Communications      | 32.7      | 39.2    | 38.6    | 42.0    | 59.2    | 80.3    | 102.1   | 127.0   |
| Cox Business Services                | 53.7      | 97.8    | 144.3   | 185.3   | 231.0   | 279.2   | 317.3   | 354.6   |
| Insight Communications               | 0.0       | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Time Warner Telecom (1)              | 268.8     | 460.0   | 692.1   | 735.4   | 897.4   | 1,135.2 | 1,348.6 | 1,554.2 |
| US CATV Industry Revenue             | 427.9     | 702.7   | 1,031.1 | 1,136.3 | 1,388.0 | 1,725.7 | 2,021.3 | 2,315.8 |
| Growth Rate                          | 117%      | 64%     | 47%     | 10%     | 22%     | 24%     | 17%     | 15%     |
| <b>Commercial Telephony EBITDA</b>   |           |         |         |         |         |         |         |         |
| Adelphia                             | (20.0)    | (10.0)  | 0.0     | 12.6    | 13.2    | 13.8    | 14.5    | 15.3    |
| AT&T Broadband                       | 0.0       | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Cablevision Lightpath                | 34.0      | 31.1    | 32.4    | 49.7    | 60.6    | 74.0    | 83.3    | 96.6    |
| Charter Communications               | 0.0       | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Comcast Business Communications      | (2.0)     | (70.1)  | (143.8) | (46.3)  | (38.3)  | (26.5)  | (9.3)   | 2.0     |
| Cox Business Services                | 19.9      | 38.4    | 45.5    | 66.6    | 83.3    | 102.0   | 118.5   | 135.2   |
| Insight Communications               | 0.0       | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Time Warner Telecom (1)              | 37.8      | 104.3   | 142.4   | 175.0   | 251.5   | 366.6   | 482.0   | 596.7   |
| US CATV Industry Revenue             | 69.8      | 93.7    | 76.5    | 257.6   | 370.4   | 529.9   | 689.1   | 845.7   |
| Growth Rate                          | -462%     | 34%     | -18%    | 237%    | 44%     | 43%     | 30%     | 23%     |

E= Morgan Stanley Research Estimates

Note: Not consolidated into AOL Time Warner

## A Closer Look at Basic Programming Costs

### Summary and Investment Conclusion

Over the next several years, we expect cable operators will generate average revenue and EBITDA growth of 12-14% in the cable business (analog, digital video, and cable modem services). However, we expect analog video revenue (basic rates, advertising, and other) to only grow 5-7%, while analog gross profit (analog revenue minus analog programming costs) should grow 3.5-5.5% per year. The majority of the growth in the cable business should come from new services such as digital video and cable modem.

The 5-7% analog video growth can be broken down as follows: 0.5-1.0% basic subscriber growth, 3-4% growth from basic and premium rate increases, 1% growth from advertising revenue, and 0.5% growth from other revenue. We expect basic programming costs per subscriber to grow an average of 7-9% over the next several years.

We have analyzed the affiliate fees of the various cable networks and cross-checked them with our estimates for average analog programming costs for the cable operators. We believe four conclusions can be drawn from this analysis:

- We expect basic programming rate increases to decline gradually over the next several years, to about 6% per subscriber per year by 2006. However, we expect analog gross margins to decline from about 71% to 68% by 2006, as basic rate increases will not exactly match increases on programming costs.
- Upselling basic customers to digital video and other services will be an important offset for these cost increases.
- The top-20 cable networks represent more than 75% of total affiliate fees of the cable networks included in most basic programming tiers (roughly 45 channels — broadcasters and local channels do not receive affiliate fees).
- Our programming cost estimates are based on our forecasts of affiliate fee growth at the entertainment companies. With the exception of sports programming, these cost increases are commensurate with basic rate increases at about 5-6% per year. Including sports programming (which has been the driving force behind the highest rate increases over the past few

years), affiliate fee growth averages 6-8% in our model over the next several years.

- Channel additions have led to increases in programming costs for the MSOs, which have exceeded growth in affiliate fees over the past few years. We estimate that total annual basic programming costs per subscriber grew 10-12% in 1998-2001. About 400-500 basis points of the increase came from channel additions.
- Upside to current revenue growth for programmers will likely occur through digital variants of analog programming (i.e., Discovery's digital programming). We estimate that digital tier programming was 32-35% of digital revenue in 2000-2001 and should not exceed 36% by 2006. The combined cost of analog and digital programming was 29% of revenue in 2001 and should be 32-33% in 2006, according to our analysis.

A cable operator offers its customers different tiers of cable television service including standard and digital tiered services. The standard cable service offers analog programming with an average of 60-70 channels, which include broadcast and cable networks. The MSOs have now also begun to offer a variety of digital packages at different price points, which incorporate the standard analog service, plus additional digital channels.

For non-sports networks, a contract between a programmer and a cable operator is typically for 5-8 years and sets the affiliate fees per subscriber owed to the programmer as well as annual rate increases on these affiliate fees. The annual rate increases average 5-6% excluding sports programming. Revenue for the programmers is a cost to the cable operators for carriage of the networks. Contracts for sports programming are also an important component of annual rate increases of affiliate fees; many contracts include a surcharge for sports rights. Direct and indirect sports surcharges are the reasons behind the 20% increases in sports channel affiliate fees over the past few years. Including sports programming surcharges, industry rate increases average 6-8%.

Analog programming costs account for a cable operator's largest expense at an average of 27-30% of total analog revenue. Of the analog programming costs, the basic programming cost is the largest component, averaging about

20-22% of analog revenue. Basic programming costs per subscriber have been increasing 10-12% per year, with the largest increases from the sports programmers. By 2004-2006, however, we expect these costs to decrease to about 6%.

#### **Affiliate Fees at the Top Networks**

Exhibit 43 shows the affiliate fees per subscriber for the top basic networks. Total affiliate fees per subscriber for basic programming are \$9-11 in 2000-2002E. The 45 networks shown in the exhibit account for almost all of the basic network fees, with the top 20 channels accounting for more than 75%.

The top two sports channels, ESPN and Fox Sports, account for almost 25% of the affiliate fees. The sports networks have implemented among the highest rate increases of the networks, due to the previously discussed surcharges for particular sports rights. We estimate the five-year average growth rate from 2001-2006 for ESPN and Fox Sports will be about 9%, versus an average of 5-6% for the other networks.

#### **Basic Programming Costs for the MSOs**

Exhibit 47 shows the basic programming costs broken out by cable operator. Basic costs per subscriber should average \$10-11 in 2002. For larger operators, such as AOL Time Warner with about 12 million subscribers, costs per subscriber are closer to \$10, while for the smaller operators, monthly costs per subscriber should be closer to \$11.

Programming cost increases per basic subscriber for the MSOs have averaged 10-12% per year, with the largest increases from the sports programmers. MSOs have passed on part of this cost to its customers through basic rate increases, but these increases only average about 4-6%. Upselling existing customers with digital video packages and other services have helped offset these cost increases.

#### **The Economics of Digital**

Digital video allows MSOs to offer additional services at different price points. For programmers, digital service represents an opportunity to offer more networks. Programmers such as Discovery and ESPN have created spin-off channels (Discovery Kids, Discovery Science, ESPN News, etc.) offered on the digital tier. However, unlike basic networks that have been established for many years, these new digital channels were created less than ten years ago and most are not fully distributed. As such, these new networks typically will pay the cable operator "launch fees" for carriage or will have step-up programming expenses in which affiliate fees will initially be low and then increase over time.

At this point, we believe affiliate fees for digital channels are still fairly small. Over the next couple of years, however, fees will begin to become more meaningful, particularly as digital penetration continues to increase. Digital programming affiliate fees will not be a large source of revenue for programmers, in our view, but there is little to no cost associated with these channels. Multiplexed digital channels, like Discovery, repackage much of the programming to target specific audiences, such as children.

We estimate that analog programming costs per subscriber will increase 7-9% per year in 2002-2006. Digital costs should increase from 2001-2006 at a 29% CAGR, but the large growth is really a function of the small starting base. Combined analog, premium, and digital programming costs are expected to grow from 2001 to 2006 at an 10-11% CAGR.

Basic analog revenues are forecast to increase 5-7% per year. However, when digital and premium services are added, the total increases is 8-9% per year. We expect the overall gross margin on total video services to contract from 68% in 2001 to 64% in 2006. The total margin is critical as the major programming suppliers offer all three forms of content — analog, digital, and premium. The negotiations for each type of programming are directly influenced by the price structure paid for the other forms.

Exhibit 43

## Cable TV Networks Domestic Affiliate Revenue per Subscriber

|                        | 1999        | 2000        | 2001        | 2002E        | 2003E        | 2004E        | 2005E        | 2006E        |
|------------------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|
| 1 ESPN                 | 1.01        | 1.19        | 1.40        | 1.61         | 1.74         | 1.88         | 2.03         | 2.20         |
| 2 Fox Sports           | 0.56        | 0.79        | 0.90        | 0.97         | 1.06         | 1.15         | 1.26         | 1.37         |
| 3 Disney Channel       | 0.70        | 0.71        | 0.75        | 0.81         | 0.85         | 0.89         | 0.93         | 0.98         |
| 4 TNT                  | 0.62        | 0.65        | 0.67        | 0.69         | 0.72         | 0.76         | 0.80         | 0.84         |
| 5 USA Network          | 0.36        | 0.37        | 0.39        | 0.41         | 0.41         | 0.43         | 0.44         | 0.46         |
| 6 CNN                  | 0.37        | 0.38        | 0.38        | 0.38         | 0.40         | 0.42         | 0.44         | 0.46         |
| 7 Nickelodeon          | 0.26        | 0.27        | 0.29        | 0.30         | 0.32         | 0.34         | 0.36         | 0.38         |
| 8 FX                   | 0.29        | 0.29        | 0.29        | 0.29         | 0.31         | 0.32         | 0.34         | 0.36         |
| 9 TCM                  | 0.20        | 0.21        | 0.23        | 0.27         | 0.28         | 0.30         | 0.33         | 0.35         |
| 10 TBS                 | 0.21        | 0.22        | 0.24        | 0.25         | 0.27         | 0.28         | 0.30         | 0.31         |
| 11 ESPN2               | 0.19        | 0.22        | 0.23        | 0.24         | 0.25         | 0.26         | 0.28         | 0.29         |
| 12 Discovery Channel   | 0.18        | 0.20        | 0.22        | 0.24         | 0.25         | 0.28         | 0.29         | 0.31         |
| 13 CNBC                | 0.16        | 0.19        | 0.21        | 0.23         | 0.26         | 0.28         | 0.31         | 0.34         |
| 14 AMC                 | 0.22        | 0.23        | 0.23        | 0.23         | 0.25         | 0.26         | 0.28         | 0.29         |
| 15 Fox News            | 0.21        | 0.22        | 0.22        | 0.22         | 0.23         | 0.24         | 0.25         | 0.27         |
| 16 MTV                 | 0.18        | 0.19        | 0.20        | 0.21         | 0.23         | 0.24         | 0.26         | 0.27         |
| 17 A&E                 | 0.16        | 0.18        | 0.19        | 0.20         | 0.21         | 0.23         | 0.24         | 0.26         |
| 18 E!                  | 0.16        | 0.17        | 0.18        | 0.19         | 0.20         | 0.21         | 0.22         | 0.24         |
| 19 Lifetime            | 0.13        | 0.14        | 0.15        | 0.16         | 0.17         | 0.19         | 0.20         | 0.21         |
| 20 TNN                 | 0.15        | 0.15        | 0.16        | 0.16         | 0.17         | 0.18         | 0.19         | 0.20         |
| 21 ABC Family          | 0.16        | 0.16        | 0.16        | 0.16         | 0.16         | 0.17         | 0.18         | 0.18         |
| 22 WE                  | 0.18        | 0.15        | 0.15        | 0.16         | 0.16         | 0.17         | 0.18         | 0.19         |
| 23 TLC                 | 0.12        | 0.13        | 0.14        | 0.15         | 0.16         | 0.18         | 0.19         | 0.21         |
| 24 Sci-Fi              | 0.12        | 0.13        | 0.13        | 0.15         | 0.16         | 0.17         | 0.19         | 0.21         |
| 25 MSNBC               | 0.11        | 0.12        | 0.13        | 0.14         | 0.15         | 0.17         | 0.19         | 0.21         |
| 26 Outdoor Life        | 0.12        | 0.13        | 0.13        | 0.14         | 0.15         | 0.15         | 0.16         | 0.17         |
| 27 BET                 | 0.10        | 0.11        | 0.12        | 0.13         | 0.14         | 0.15         | 0.16         | 0.17         |
| 28 Cartoon             | 0.09        | 0.10        | 0.12        | 0.13         | 0.14         | 0.15         | 0.17         | 0.19         |
| 29 Bravo               | 0.11        | 0.13        | 0.12        | 0.13         | 0.13         | 0.14         | 0.15         | 0.15         |
| 30 History Channel     | 0.09        | 0.10        | 0.11        | 0.11         | 0.12         | 0.13         | 0.14         | 0.14         |
| 31 ESPN Classic        | 0.10        | 0.10        | 0.11        | 0.11         | 0.12         | 0.12         | 0.13         | 0.14         |
| 32 Court TV            | 0.11        | 0.10        | 0.11        | 0.11         | 0.11         | 0.12         | 0.12         | 0.12         |
| 33 Comedy Central      | 0.08        | 0.09        | 0.10        | 0.10         | 0.11         | 0.11         | 0.12         | 0.13         |
| 34 VH1                 | 0.08        | 0.08        | 0.09        | 0.10         | 0.10         | 0.11         | 0.12         | 0.12         |
| 35 Speedvision         | 0.08        | 0.08        | 0.09        | 0.09         | 0.10         | 0.10         | 0.11         | 0.11         |
| 36 The Weather Channel | 0.08        | 0.08        | 0.09        | 0.09         | 0.10         | 0.10         | 0.11         | 0.12         |
| 37 Animal Planet       | 0.07        | 0.08        | 0.08        | 0.09         | 0.09         | 0.10         | 0.10         | 0.11         |
| 38 Home and Garden     | 0.05        | 0.06        | 0.06        | 0.07         | 0.07         | 0.08         | 0.08         | 0.09         |
| 39 TV Land             | 0.05        | 0.05        | 0.06        | 0.06         | 0.07         | 0.07         | 0.07         | 0.08         |
| 40 Travel Channel      | 0.04        | 0.05        | 0.05        | 0.06         | 0.06         | 0.06         | 0.07         | 0.07         |
| 41 Food Network        | 0.04        | 0.05        | 0.05        | 0.05         | 0.06         | 0.06         | 0.06         | 0.07         |
| 42 CMT                 | 0.03        | 0.04        | 0.04        | 0.04         | 0.05         | 0.05         | 0.05         | 0.05         |
| 43 TV Guide            | 0.05        | 0.05        | 0.04        | 0.04         | 0.03         | 0.03         | 0.03         | 0.03         |
| 44 ESPN News           | 0.02        | 0.02        | 0.03        | 0.03         | 0.04         | 0.04         | 0.04         | 0.04         |
| 45 M2                  | 0.02        | 0.02        | 0.03        | 0.03         | 0.03         | 0.04         | 0.05         | 0.05         |
| <b>Total</b>           | <b>8.41</b> | <b>9.17</b> | <b>9.86</b> | <b>10.57</b> | <b>11.21</b> | <b>11.94</b> | <b>12.70</b> | <b>13.52</b> |
| Growth %               |             | 9.0%        | 7.5%        | 7.2%         | 6.1%         | 6.5%         | 6.4%         | 6.4%         |
| Growth % excl. sports  |             | 5.0%        | 5.2%        | 5.6%         | 5.4%         | 5.8%         | 5.7%         | 5.7%         |

E= Morgan Stanley Research Estimates

Broadband Cable Television – April 5, 2002

Please see the important disclosures at the end of this report.

Exhibit 44

## Average Subscribers for Cable TV Networks

|                        | 1999 | 2000  | 2001  | 2002E | 2003E | 2004E | 2005E | 2006E |
|------------------------|------|-------|-------|-------|-------|-------|-------|-------|
| 1 ESPN                 | 75.7 | 78.6  | 82.3  | 84.8  | 85.5  | 87.0  | 88.3  | 89.5  |
| 2 Fox Sports           | 27.9 | 31.5  | 33.1  | 36.3  | 39.4  | 42.5  | 45.5  | 48.4  |
| 3 Disney Channel       | 35.4 | 46.4  | 57.4  | 63.7  | 67.0  | 67.4  | 67.8  | 68.2  |
| 4 TNT                  | 76.7 | 79.1  | 80.7  | 82.1  | 83.4  | 84.6  | 85.9  | 87.2  |
| 5 USA Network          | 76.2 | 79.1  | 82.6  | 85.4  | 86.7  | 87.6  | 88.4  | 89.3  |
| 6 CNN                  | 76.9 | 79.7  | 81.7  | 83.1  | 84.3  | 85.6  | 86.9  | 88.2  |
| 7 Nickelodeon          | 75.4 | 78.2  | 81.1  | 83.5  | 85.6  | 87.2  | 88.5  | 89.7  |
| 8 FX                   | 40.0 | 48.0  | 56.5  | 72.0  | 80.0  | 83.6  | 86.9  | 89.8  |
| 9 TCM                  | 29.6 | 35.8  | 41.2  | 45.6  | 49.6  | 53.5  | 57.4  | 61.3  |
| 10 TBS                 | 78.6 | 80.8  | 83.0  | 85.6  | 87.6  | 88.9  | 90.2  | 91.1  |
| 11 ESPN2               | 65.9 | 72.5  | 81.0  | 83.4  | 85.1  | 86.8  | 88.1  | 89.4  |
| 12 Discovery Channel   | 76.7 | 79.1  | 83.0  | 84.9  | 87.0  | 88.6  | 89.9  | 91.1  |
| 13 CNBC                | 69.6 | 72.9  | 76.2  | 79.1  | 81.3  | 83.3  | 85.3  | 87.2  |
| 14 AMC                 | 61.7 | 64.4  | 68.4  | 71.3  | 73.1  | 75.7  | 78.2  | 80.6  |
| 15 Fox News            | 33.2 | 43.5  | 59.0  | 74.0  | 81.7  | 85.1  | 88.3  | 91.4  |
| 16 MTV                 | 72.3 | 75.5  | 80.4  | 83.0  | 83.5  | 85.0  | 86.3  | 87.5  |
| 17 A&E                 | 75.0 | 77.5  | 80.9  | 83.4  | 84.8  | 86.3  | 87.6  | 88.7  |
| 18 E!                  | 57.0 | 65.3  | 73.3  | 77.2  | 79.4  | 81.2  | 82.9  | 84.4  |
| 19 Lifetime            | 73.9 | 77.4  | 81.0  | 83.5  | 84.9  | 86.4  | 87.7  | 88.9  |
| 20 TNN                 | 73.0 | 75.9  | 81.8  | 85.6  | 87.7  | 89.3  | 90.7  | 91.9  |
| 21 ABC Family          | 74.3 | 76.6  | 79.4  | 81.5  | 82.8  | 84.3  | 85.6  | 86.7  |
| 22 WE                  | 19.2 | 22.7  | 37.8  | 43.5  | 45.6  | 47.9  | 50.3  | 52.8  |
| 23 TLC                 | 70.0 | 74.3  | 78.7  | 81.1  | 83.3  | 85.3  | 87.1  | 88.7  |
| 24 Sci-Fi              | 56.2 | 62.7  | 68.6  | 74.1  | 79.1  | 84.0  | 85.7  | 87.0  |
| 25 MSNBC               | 49.6 | 55.6  | 59.9  | 63.3  | 65.7  | 67.3  | 69.5  | 72.3  |
| 26 Outdoor Life        | 20.5 | 25.5  | 32.5  | 37.8  | 41.4  | 46.9  | 52.6  | 56.0  |
| 27 BET                 | 57.5 | 60.6  | 66.5  | 72.8  | 76.8  | 80.0  | 82.1  | 83.2  |
| 28 Cartoon             | 54.6 | 60.0  | 65.0  | 69.2  | 72.8  | 75.8  | 78.4  | 80.6  |
| 29 Bravo               | 34.9 | 46.9  | 45.2  | 54.8  | 58.6  | 60.8  | 62.9  | 64.9  |
| 30 History Channel     | 57.1 | 62.1  | 70.8  | 78.1  | 80.0  | 81.5  | 82.7  | 83.7  |
| 31 ESPN Classic        | 20.0 | 28.0  | 42.0  | 46.2  | 53.1  | 61.1  | 67.2  | 73.9  |
| 32 Court TV            | 36.6 | 42.7  | 50.6  | 58.5  | 64.7  | 69.3  | 72.6  | 74.9  |
| 33 Comedy Central      | 58.6 | 65.4  | 71.5  | 75.1  | 76.9  | 78.4  | 79.5  | 80.6  |
| 34 VH1                 | 66.0 | 71.7  | 76.6  | 80.5  | 83.1  | 85.0  | 86.5  | 87.4  |
| 35 Speedvision         | 22.5 | 28.5  | 34.0  | 36.7  | 39.7  | 42.8  | 44.5  | 46.3  |
| 36 The Weather Channel | 73.4 | 75.8  | 78.3  | 80.3  | 82.3  | 84.3  | 86.4  | 88.6  |
| 37 Animal Planet       | 49.4 | 59.8  | 69.1  | 74.4  | 77.3  | 79.6  | 82.0  | 84.5  |
| 38 Home and Garden     | 53.7 | 63.0  | 71.0  | 73.1  | 75.3  | 77.6  | 79.9  | 82.3  |
| 39 TV Land             | 41.3 | 50.6  | 61.3  | 70.2  | 75.0  | 78.2  | 81.2  | 84.1  |
| 40 Travel Channel      | 28.4 | 42.2  | 55.0  | 61.9  | 63.8  | 65.7  | 67.7  | 69.7  |
| 41 Food Network        | 40.7 | 45.5  | 48.0  | 50.4  | 52.9  | 55.6  | 58.3  | 61.3  |
| 42 CMT                 | 40.0 | 41.9  | 49.5  | 55.6  | 57.8  | 59.8  | 61.6  | 63.3  |
| 43 TV Guide            | 49.8 | 50.5  | 52.6  | 54.5  | 56.3  | 58.1  | 59.9  | 61.8  |
| 44 ESPN News           | 18.0 | 23.0  | 26.0  | 28.6  | 31.5  | 34.6  | 38.1  | 41.9  |
| 45 M2                  | 11.4 | 16.5  | 28.6  | 37.3  | 40.0  | 42.5  | 44.9  | 47.3  |
| Total                  | 52.3 | 57.6  | 63.6  | 68.2  | 71.0  | 73.4  | 75.5  | 77.5  |
| Growth %               |      | 10.1% | 10.4% | 7.1%  | 4.1%  | 3.4%  | 2.9%  | 2.6%  |

E = Morgan Stanley Research Estimates

Broadband Cable Television - April 5, 2002

Please see the important disclosures at the end of this report.

Exhibit 45

## Cable TV Networks Domestic Affiliate Revenue

|                   | C1999  | C2000  | C2001E | C2002E | C2003E | C2004E | C2005E | C2006E |
|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| ABC Family        | 139    | 148    | 157    | 161    | 163    | 173    | 183    | 191    |
| Growth %          | 8.3%   | 6.4%   | 6.0%   | 2.6%   | 1.6%   | 5.9%   | 5.6%   | 4.4%   |
| A&E               | 145    | 167    | 183    | 203    | 218    | 236    | 253    | 272    |
| Growth %          | 15.0%  | 15.0%  | 9.9%   | 10.5%  | 7.7%   | 8.0%   | 7.6%   | 7.4%   |
| AMC               | 175    | 181    | 196    | 213    | 233    | 255    | 277    | 299    |
| Growth %          | 12.7%  | 3.5%   | 8.8%   | 8.5%   | 9.2%   | 9.7%   | 8.3%   | 8.1%   |
| Animal Planet     | 42     | 56     | 69     | 78     | 86     | 93     | 101    | 110    |
| Growth %          | 51.3%  | 36.0%  | 21.9%  | 13.6%  | 9.7%   | 8.7%   | 8.7%   | 8.7%   |
| BET               | 191    | 168    | 191    | 214    | 237    | 261    | 285    | 309    |
| Growth %          | 26.6%  | -11.8% | 13.2%  | 12.0%  | 10.9%  | 10.0%  | 9.3%   | 8.6%   |
| Bravo             | 62     | 67     | 76     | 91     | 100    | 109    | 118    | 128    |
| Growth %          | 41.0%  | 9.7%   | 12.8%  | 19.1%  | 10.6%  | 8.8%   | 8.4%   | 8.2%   |
| Cartoon           | 60     | 72     | 90     | 106    | 122    | 140    | 159    | 180    |
| Growth %          | 22.6%  | 20.9%  | 24.6%  | 17.1%  | 15.7%  | 14.6%  | 13.8%  | 13.1%  |
| CMT               | 15     | 18     | 25     | 29     | 32     | 34     | 37     | 40     |
| Growth %          | 15.4%  | 20.5%  | 36.1%  | 17.8%  | 9.2%   | 8.6%   | 8.2%   | 8.0%   |
| CNBC              | 137    | 165    | 195    | 222    | 252    | 284    | 319    | 359    |
| Growth %          | 15.1%  | 20.5%  | 18.1%  | 14.2%  | 13.1%  | 12.7%  | 12.5%  | 12.4%  |
| CNN               | 337    | 360    | 369    | 375    | 400    | 426    | 454    | 484    |
| Growth %          | 11.5%  | 6.7%   | 2.5%   | 1.7%   | 6.6%   | 6.6%   | 6.6%   | 6.6%   |
| Comedy Central    | 57     | 69     | 82     | 92     | 100    | 108    | 116    | 124    |
| Growth %          | 25.0%  | 20.5%  | 18.1%  | 12.3%  | 8.6%   | 8.0%   | 7.6%   | 7.4%   |
| Court TV          | 48     | 52     | 65     | 78     | 88     | 97     | 105    | 112    |
| Growth %          | 40.0%  | 7.9%   | 24.8%  | 19.3%  | 13.9%  | 10.3%  | 7.9%   | 6.3%   |
| Discovery Channel | 169    | 192    | 217    | 240    | 266    | 292    | 318    | 344    |
| Growth %          | 6.8%   | 13.6%  | 13.3%  | 10.5%  | 10.6%  | 10.0%  | 8.6%   | 8.4%   |
| Disney Channel    | 541    | 629    | 747    | 880    | 990    | 1,067  | 1,143  | 1,222  |
| Growth %          | 12.7%  | 16.3%  | 18.7%  | 17.9%  | 12.4%  | 7.8%   | 7.2%   | 6.9%   |
| E!                | 109    | 132    | 155    | 180    | 194    | 208    | 223    | 239    |
| Growth %          | 128.0% | 20.3%  | 17.9%  | 15.8%  | 7.9%   | 7.5%   | 7.2%   | 6.9%   |
| ESPN              | 920    | 1,127  | 1,386  | 1,659  | 1,824  | 2,007  | 2,200  | 2,408  |
| Growth %          | 23.8%  | 22.5%  | 23.0%  | 19.7%  | 10.0%  | 10.0%  | 9.6%   | 9.4%   |
| ESPN2             | 144    | 180    | 210    | 237    | 257    | 275    | 294    | 315    |
| Growth %          | 19.9%  | 24.8%  | 16.5%  | 13.0%  | 8.1%   | 7.1%   | 7.1%   | 7.1%   |
| ESPN Classic      | 21     | 29     | 45     | 56     | 64     | 77     | 91     | 105    |
| Growth %          | 43.1%  | 41.2%  | 53.1%  | 26.0%  | 12.9%  | 20.8%  | 17.9%  | 15.5%  |
| ESPN New          | 5      | 5      | 6      | 11     | 14     | 16     | 16     | 20     |
| Growth %          | 271.4% | 57.7%  | 79.3%  | 28.4%  | 26.0%  | 15.5%  | 15.5%  | 15.5%  |
| Food Network      | 141    | 150    | 159    | 169    | 180    | 192    | 204    | 218    |
| Growth %          | 7.0%   | 6.2%   | 5.9%   | 6.5%   | 6.5%   | 6.5%   | 6.5%   | 6.5%   |
| Fox News          | 84     | 113    | 158    | 194    | 225    | 246    | 268    | 291    |
| Growth %          | 40.6%  | 35.2%  | 39.7%  | 22.9%  | 16.0%  | 9.4%   | 9.0%   | 8.6%   |
| Fox Sports        | 307    | 394    | 473    | 570    | 688    | 820    | 966    | 1,127  |
| Growth %          |        | 28.7%  | 19.9%  | 20.5%  | 20.7%  | 19.2%  | 17.8%  | 16.6%  |
| FX                | 138    | 167    | 198    | 252    | 294    | 323    | 353    | 383    |
| Growth %          | 57.5%  | 21.7%  | 18.4%  | 27.4%  | 16.6%  | 9.8%   | 9.1%   | 8.5%   |
| History Channel   | 67     | 77     | 91     | 107    | 116    | 126    | 135    | 145    |
| Growth %          | 22.0%  | 14.3%  | 18.4%  | 18.0%  | 8.6%   | 8.0%   | 7.6%   | 7.4%   |
| Home and Garden   | 35     | 48     | 55     | 58     | 62     | 66     | 70     | 75     |
| Growth %          | 39.9%  | 39.2%  | 12.8%  | 6.5%   | 6.5%   | 6.5%   | 6.5%   | 6.5%   |

E= Morgan Stanley Research Estimates

Broadband Cable Television – April 5, 2002

Please see the important disclosures at the end of this report.

Exhibit 46

## Cable TV Networks Domestic Affiliate Revenue (continued)

|  | C1999   | C2000   | C2001E  | C2002E   | C2003E   | C2004E   | C2005E   | C2006E   |
|--|---------|---------|---------|----------|----------|----------|----------|----------|
| Lifetime                                     | 112     | 129     | 148     | 165      | 178      | 192      | 207      | 222      |
| Growth %                                     | 14.7%   | 15.2%   | 15.2%   | 11.3%    | 7.8%     | 8.0%     | 7.6%     | 7.4%     |
| MTV  | 156     | 173     | 195     | 213      | 227      | 246      | 264      | 284      |
| Growth %                                     | 10.3%   | 10.6%   | 12.9%   | 9.5%     | 6.6%     | 8.0%     | 7.6%     | 7.4%     |
| M2   | 3       | 5       | 9       | 14       | 17       | 21       | 25       | 30       |
| Growth %                                     |         | 66.7%   | 99.6%   | 50.2%    | 23.2%    | 22.3%    | 21.6%    | 19.6%    |
| MSNBC  | 64      | 77      | 92      | 107      | 122      | 137      | 156      | 179      |
| Growth %                                     | 33.9%   | 21.1%   | 18.5%   | 16.3%    | 14.2%    | 12.7%    | 13.6%    | 14.5%    |
| Nickelodeon                                  | 231     | 254     | 280     | 305      | 332      | 358      | 385      | 414      |
| Growth %                                     | 10.0%   | 10.0%   | 9.9%    | 9.2%     | 8.0%     | 8.0%     | 7.6%     | 7.4%     |
| Outdoor Life                                 | 30      | 39      | 52      | 64       | 73       | 87       | 103      | 115      |
| Growth %                                     | 99.7%   | 30.0%   | 33.8%   | 22.1%    | 14.9%    | 19.2%    | 17.7%    | 11.7%    |
| Sci-Fi                                       | 81      | 97      | 106     | 130      | 148      | 175      | 204      | 232      |
| Growth %                                     | 24.5%   | 19.8%   | 9.5%    | 22.0%    | 14.2%    | 18.5%    | 16.0%    | 13.9%    |
| Speedvision                                  | 32      | 44      | 60      | 60       | 63       | 66       | 69       | 73       |
| Growth %                                     | 113.3%  | 36.9%   | 37.0%   | 0.0%     | 5.0%     | 5.0%     | 5.0%     | 5.0%     |
| TBS  | 198     | 214     | 242     | 262      | 281      | 301      | 324      | 348      |
| Growth %                                     | 10.1%   | 8.1%    | 12.9%   | 8.3%     | 7.4%     | 6.9%     | 7.7%     | 7.6%     |
| TCM  | 70      | 90      | 114     | 146      | 169      | 196      | 225      | 256      |
| Growth %                                     | 36.8%   | 29.5%   | 26.4%   | 27.5%    | 16.3%    | 15.5%    | 14.8%    | 14.2%    |
| TLC  | 100     | 117     | 133     | 148      | 165      | 182      | 201      | 219      |
| Growth %                                     | 53.8%   | 16.5%   | 14.4%   | 11.2%    | 11.0%    | 10.5%    | 10.2%    | 9.0%     |
| TNN  | 135     | 140     | 154     | 169      | 182      | 195      | 207      | 221      |
| Growth %                                     | 7.7%    | 3.9%    | 10.0%   | 9.9%     | 7.6%     | 7.0%     | 6.6%     | 6.4%     |
| TNT  | 569     | 616     | 647     | 678      | 722      | 770      | 821      | 875      |
| Growth %                                     | 14.7%   | 8.3%    | 5.1%    | 4.8%     | 6.6%     | 6.6%     | 6.6%     | 6.6%     |
| Travel Channel                               | 12      | 23      | 34      | 41       | 45       | 50       | 55       | 61       |
| Growth %                                     | 116.6%  | 85.8%   | 49.8%   | 20.5%    | 10.2%    | 10.2%    | 10.2%    | 10.2%    |
| TV Guide                                     | 33      | 29      | 27      | 25       | 24       | 23       | 23       | 22       |
| Growth %                                     | -5.2%   | -10.7%  | -6.4%   | -8.7%    | -5.0%    | -2.0%    | -2.0%    | -2.0%    |
| TV Land                                      | 25      | 33      | 43      | 53       | 60       | 66       | 72       | 79       |
| Growth %                                     |         | 32.3%   | 30.7%   | 22.6%    | 13.3%    | 10.5%    | 10.0%    | 9.8%     |
| USA Network                                  | 327     | 349     | 383     | 420      | 431      | 461      | 483      | 510      |
| Growth %                                     | 2.8%    | 6.8%    | 9.6%    | 9.6%     | 2.8%     | 6.8%     | 4.8%     | 5.7%     |
| VH1  | 63      | 72      | 83      | 94       | 103      | 112      | 120      | 129      |
| Growth %                                     | 12.7%   | 13.7%   | 15.4%   | 13.5%    | 9.4%     | 8.4%     | 7.7%     | 7.4%     |
| WE   | 28      | 38      | 51      | 77       | 88       | 97       | 106      | 116      |
| Growth %                                     | 82.2%   | 37.9%   | 32.2%   | 52.2%    | 14.6%    | 9.7%     | 9.7%     | 9.7%     |
| The Weather Channel                          | 68      | 75      | 82      | 87       | 93       | 99       | 105      | 112      |
| Growth %                                     | 11.3%   | 10.0%   | 9.5%    | 6.5%     | 6.5%     | 6.5%     | 6.5%     | 6.5%     |
| Total  | \$6,421 | \$7,381 | \$8,535 | \$9,733  | \$10,729 | \$11,765 | \$12,849 | \$14,000 |
| Growth %                                     | 25.4%   | 15.0%   | 15.6%   | 14.0%    | 10.2%    | 9.7%     | 9.2%     | 9.0%     |
| Copyrights, other small networks, other fees | \$1,060 | \$1,263 | \$1,406 | \$1,521  | \$1,752  | \$1,865  | \$1,962  | \$2,049  |
| Total  | \$7,481 | \$8,645 | \$9,940 | \$11,254 | \$12,481 | \$13,629 | \$14,811 | \$16,049 |
|  |         | 15.6%   | 15.0%   | 13.2%    | 10.9%    | 9.2%     | 8.7%     | 8.4%     |

E = Morgan Stanley Research Estimates

Broadband Cable Television - April 5, 2002

Please see the important disclosures at the end of this report.

## Exhibit 47

## Basic Programming Expenses by Cable Operator

|   | Pro Forma  |            |            |            |            |            |            |            |
|---|------------|------------|------------|------------|------------|------------|------------|------------|
|   | 1999       | 2000       | 2001       | 2002E      | 2003E      | 2004E      | 2005E      | 2006E      |
| <b>Adelphia</b>                                   |            |            |            |            |            |            |            |            |
| Avg. Basic Subscribers                            | 5,605,840  | 5,757,607  | 5,802,522  | 5,823,326  | 5,848,700  | 5,873,000  | 5,897,000  | 5,921,000  |
| Basic Programming Cost / Sub.                     | \$7.56     | \$8.29     | \$9.34     | \$10.52    | \$11.41    | \$12.27    | \$13.13    | \$14.05    |
| % Growth  |            | 10%        | 13%        | 13%        | 9%         | 8%         | 7%         | 7%         |
| Basic Programming Expense                         | \$508.6    | \$572.9    | \$650.2    | \$735.0    | \$801.0    | \$864.6    | \$928.9    | \$998.0    |
| <b>AOL Time Warner</b>                            |            |            |            |            |            |            |            |            |
| Avg. Basic Subscribers                            | 10,481,004 | 11,072,516 | 11,152,666 | 11,240,423 | 11,297,329 | 11,351,714 | 11,404,994 | 11,457,186 |
| Basic Programming Cost / Sub.                     | \$7.98     | \$8.70     | \$9.30     | \$10.14    | \$11.00    | \$11.71    | \$12.47    | \$13.29    |
| % Growth  |            | 9%         | 7%         | 9%         | 9%         | 6%         | 6%         | 6%         |
| Basic Programming Expense                         | \$1,003.7  | \$1,155.7  | \$1,244.6  | \$1,367.3  | \$1,491.1  | \$1,595.6  | \$1,707.3  | \$1,826.6  |
| <b>AT&amp;T</b>                                   |            |            |            |            |            |            |            |            |
| Avg. Basic Subscribers                            | 13,610,797 | 13,689,000 | 13,631,000 | 13,593,900 | 13,661,870 | 13,730,179 | 13,798,890 | 13,867,824 |
| Basic Programming Cost / Sub.                     | \$7.75     | \$8.28     | \$9.36     | \$10.20    | \$11.22    | \$12.01    | \$12.85    | \$13.75    |
| % Growth  |            | 7%         | 13%        | 9%         | 10%        | 7%         | 7%         | 7%         |
| Basic Programming Expense                         | \$1,265.1  | \$1,360.4  | \$1,531.0  | \$1,664.4  | \$1,840.0  | \$1,978.6  | \$2,127.7  | \$2,288.1  |
| <b>Cablevision</b>                                |            |            |            |            |            |            |            |            |
| Avg. Basic Subscribers                            | 2,863,158  | 2,935,434  | 2,985,071  | 3,022,282  | 3,059,442  | 3,096,650  | 3,133,874  | 3,171,092  |
| Basic Programming Cost / Sub.                     | \$7.90     | \$8.90     | \$9.85     | \$10.62    | \$11.30    | \$12.03    | \$12.81    | \$13.55    |
| % Growth  |            | 13%        | 11%        | 8%         | 8%         | 6%         | 6%         | 6%         |
| Basic Programming Expense                         | \$271.6    | \$313.5    | \$353.0    | \$385.1    | \$414.9    | \$446.7    | \$481.2    | \$514.6    |
| <b>Charter Communications</b>                     |            |            |            |            |            |            |            |            |
| Avg. Basic Subscribers                            | 6,090,638  | 6,746,046  | 6,953,700  | 6,923,884  | 7,005,940  | 7,040,969  | 7,076,174  | 7,111,555  |
| Basic Programming Cost / Sub.                     | \$7.73     | \$8.52     | \$9.53     | \$10.61    | \$11.30    | \$11.98    | \$12.70    | \$13.46    |
| % Growth  |            | 10%        | 12%        | 11%        | 7%         | 6%         | 6%         | 6%         |
| Basic Programming Expense                         | \$564.8    | \$689.4    | \$795.3    | \$881.3    | \$950.0    | \$1,012.0  | \$1,078.1  | \$1,148.5  |
| <b>Comcast</b>                                    |            |            |            |            |            |            |            |            |
| Avg. Basic Subscribers                            | 8,147,919  | 8,297,842  | 8,428,942  | 8,511,500  | 8,592,000  | 8,671,500  | 8,750,000  | 8,827,500  |
| Basic Programming Cost / Sub.                     | \$8.25     | \$8.91     | \$9.67     | \$10.45    | \$11.28    | \$11.96    | \$12.68    | \$13.44    |
| % Growth  |            | 8%         | 9%         | 8%         | 8%         | 6%         | 6%         | 6%         |
| Basic Programming Expense                         | \$806.6    | \$887.2    | \$978.3    | \$1,066.9  | \$1,163.2  | \$1,244.4  | \$1,331.0  | \$1,423.3  |
| <b>Cox Communications</b>                         |            |            |            |            |            |            |            |            |
| Avg. Basic Subscribers                            | 5,944,256  | 6,141,969  | 6,200,737  | 6,244,294  | 6,303,539  | 6,347,663  | 6,392,097  | 6,436,842  |
| Basic Programming Cost / Sub.                     | \$8.25     | \$8.58     | \$9.54     | \$10.47    | \$11.10    | \$11.77    | \$12.47    | \$13.22    |
| % Growth  |            | 4%         | 11%        | 10%        | 6%         | 6%         | 6%         | 6%         |
| Basic Programming Expense                         | \$588.5    | \$632.7    | \$709.7    | \$784.8    | \$839.8    | \$896.4    | \$956.8    | \$1,021.3  |
| <b>Insight Communications</b>                     |            |            |            |            |            |            |            |            |
| Avg. Basic Subscribers                            | 1,268,494  | 1,271,838  | 1,277,900  | 1,290,119  | 1,302,769  | 1,315,000  | 1,327,000  | 1,339,000  |
| Basic Programming Cost / Sub.                     | \$6.74     | \$8.58     | \$9.90     | \$10.99    | \$11.65    | \$12.35    | \$13.09    | \$13.87    |
| % Growth  |            | 27%        | 15%        | 11%        | 6%         | 6%         | 6%         | 6%         |
| Basic Programming Expense                         | \$102.6    | \$131.0    | \$151.8    | \$170.1    | \$182.1    | \$194.8    | \$208.4    | \$222.9    |
| <b>Total Basic Subscribers - Major MSOs</b>       |            |            |            |            |            |            |            |            |
| Avg. Basic Subscribers                            | 54,012,106 | 55,912,251 | 56,432,537 | 56,649,708 | 57,071,787 | 57,424,584 | 57,775,968 | 58,126,498 |
| Avg. Progr. Cost / Sub.                           | \$7.89     | \$8.56     | \$9.47     | \$10.38    | \$11.22    | \$11.95    | \$12.72    | \$13.54    |
| % Growth  |            | 9%         | 11%        | 10%        | 8%         | 7%         | 6%         | 6%         |
| Total Basic Progr. Expense (based on coverage)    | \$5,111.5  | \$5,742.1  | \$6,413.1  | \$7,054.1  | \$7,682.0  | \$8,233.1  | \$8,810.1  | \$9,441.4  |
| <b>Other Subscribers (Small MSOs)</b>             |            |            |            |            |            |            |            |            |
| Avg. Basic Subscribers                            | 14,525,874 | 13,456,669 | 13,421,965 | 13,627,988 | 13,626,599 | 13,692,869 | 13,760,020 | 13,827,522 |
| Basic Programming Cost / Sub.                     | \$6.94     | \$7.91     | \$9.02     | \$10.19    | \$11.52    | \$12.86    | \$14.22    | \$15.57    |
| % Growth  |            | 14%        | 14%        | 13%        | 13%        | 12%        | 11%        | 9%         |
| Other Expense (Small MSOs)                        | \$1,209.7  | \$1,277.5  | \$1,452.6  | \$1,666.6  | \$1,883.1  | \$2,113.7  | \$2,347.7  | \$2,582.8  |
| <b>Total US Basic Subscribers</b>                 |            |            |            |            |            |            |            |            |
| Avg. Basic Subscribers                            | 68,537,980 | 69,368,920 | 69,854,502 | 70,277,696 | 70,698,386 | 71,117,453 | 71,535,989 | 71,954,020 |
| Avg. Progr. Cost / Sub.                           | \$7.69     | \$8.43     | \$9.38     | \$10.34    | \$11.27    | \$12.12    | \$13.01    | \$13.93    |
| % Growth  |            | 10%        | 11%        | 10%        | 9%         | 8%         | 7%         | 7%         |
| Basic Progr. Expense - Total US                   | \$6,321.1  | \$7,020.4  | \$7,866.5  | \$8,721.6  | \$9,565.1  | \$10,346.9 | \$11,167.2 | \$12,026.2 |
| <b>Total Programming Expenses for DBS</b>         |            |            |            |            |            |            |            |            |
| Total DBS Subscribers                             | 11,489,000 | 14,760,000 | 17,532,000 | 19,971,158 | 21,672,964 | 22,915,406 | 23,908,763 | 24,802,075 |
| Avg. Progr. Cost / Sub.                           | \$8.41     | \$9.17     | \$9.86     | \$10.57    | \$11.21    | \$11.94    | \$12.70    | \$13.52    |
| Total Basic Progr. Expense for DBS                | \$1,159.7  | \$1,624.1  | \$2,073.7  | \$2,532.1  | \$2,916.0  | \$3,282.5  | \$3,644.1  | \$4,022.4  |
| <b>Total Programming Expenses (Cable and DBS)</b> |            |            |            |            |            |            |            |            |
| Avg. Basic Subscribers                            |            |            |            |            |            |            |            |            |
| % Growth  |            | 16%        | 15%        | 13%        | 11%        | 9%         | 9%         | 8%         |

E = Morgan Stanley Research Estimates

Broadband Cable Television - April 5, 2002

Please see the important disclosures at the end of this report.

## Exhibit 48

## Digital Programming Expenses by Cable Operator

|   | Pro Forma |           |            |            |            |            |            |            |
|---|-----------|-----------|------------|------------|------------|------------|------------|------------|
|   | 1999      | 2000      | 2001       | 2002E      | 2003E      | 2004E      | 2005E      | 2006E      |
| <b>Adelphia</b>                               |           |           |            |            |            |            |            |            |
| Avg. Digital Subscribers                      | 137,780   | 569,106   | 1,391,654  | 2,337,321  | 3,080,922  | 3,773,506  | 4,290,114  | 4,629,274  |
| Digital Programming Cost / Digital Sub.       | \$1.99    | \$1.86    | \$2.20     | \$2.59     | \$3.14     | \$3.72     | \$4.33     | \$4.97     |
| Digital Programming Expense                   | \$3.3     | \$12.7    | \$36.7     | \$72.8     | \$116.1    | \$168.4    | \$222.8    | \$276.1    |
| <b>AOL Time Warner</b>                        |           |           |            |            |            |            |            |            |
| Avg. Digital Subscribers                      | 205,000   | 987,100   | 2,260,125  | 3,591,099  | 4,847,213  | 5,851,969  | 6,596,571  | 7,212,245  |
| Digital Programming Cost / Digital Sub.       | \$2.42    | \$4.52    | \$4.65     | \$5.17     | \$5.42     | \$5.70     | \$5.98     | \$6.28     |
| Digital Programming Expense                   | \$6.0     | \$53.5    | \$126.1    | \$222.6    | \$315.5    | \$399.9    | \$473.4    | \$543.4    |
| <b>AT&amp;T</b>                               |           |           |            |            |            |            |            |            |
| Avg. Digital Subscribers                      | 1,235,532 | 2,058,545 | 2,890,000  | 3,954,467  | 4,845,886  | 5,547,128  | 6,166,838  | 6,703,559  |
| Digital Programming Cost / Digital Sub.       | \$5.20    | \$5.85    | \$8.78     | \$9.15     | \$7.28     | \$6.03     | \$5.46     | \$5.98     |
| Digital Programming Expense                   | \$77.1    | \$144.5   | \$304.3    | \$434.1    | \$423.6    | \$401.5    | \$404.2    | \$480.7    |
| <b>Cablevision</b>                            |           |           |            |            |            |            |            |            |
| Avg. Digital Subscribers                      | -         | -         | 2,230      | 68,068     | 305,180    | 583,045    | 824,082    | 1,095,631  |
| Digital Programming Cost / Digital Sub.       | \$0.00    | \$0.00    | \$6.30     | \$6.72     | \$7.14     | \$7.79     | \$8.24     | \$8.95     |
| Digital Programming Expense                   | \$0.0     | \$0.0     | \$0.2      | \$3.5      | \$26.1     | \$54.5     | \$81.5     | \$117.7    |
| <b>Charter Communications</b>                 |           |           |            |            |            |            |            |            |
| Avg. Digital Subscribers                      | 84,550    | 466,488   | 1,661,150  | 2,403,000  | 3,043,980  | 3,514,153  | 3,923,834  | 4,337,974  |
| Digital Programming Cost / Digital Sub.       | \$5.04    | \$1.28    | \$2.72     | \$2.72     | \$3.12     | \$3.55     | \$4.01     | \$4.52     |
| Digital Programming Expense                   | \$5.1     | \$7.2     | \$54.2     | \$78.6     | \$114.0    | \$149.7    | \$189.0    | \$235.1    |
| <b>Comcast</b>                                |           |           |            |            |            |            |            |            |
| Avg. Digital Subscribers                      | 287,675   | 1,037,100 | 1,927,850  | 2,655,686  | 3,272,780  | 3,798,981  | 4,255,958  | 4,639,086  |
| Digital Programming Cost / Digital Sub.       | \$1.92    | \$1.51    | \$2.11     | \$2.38     | \$2.73     | \$3.10     | \$3.51     | \$3.95     |
| Digital Programming Expense                   | \$6.6     | \$18.8    | \$48.9     | \$75.9     | \$107.1    | \$141.5    | \$179.2    | \$219.7    |
| <b>Cox Communications</b>                     |           |           |            |            |            |            |            |            |
| Avg. Digital Subscribers                      | 239,934   | 560,961   | 1,093,444  | 1,684,236  | 2,271,844  | 2,772,258  | 3,218,361  | 3,612,561  |
| Digital Programming Cost / Digital Sub.       | \$1.49    | \$1.67    | \$1.81     | \$3.01     | \$3.38     | \$3.82     | \$4.30     | \$4.82     |
| Digital Programming Expense                   | \$4.3     | \$11.3    | \$23.7     | \$60.8     | \$92.1     | \$127.2    | \$166.3    | \$209.1    |
| <b>Insight Communications</b>                 |           |           |            |            |            |            |            |            |
| Avg. Digital Subscribers                      | 62,533    | 96,358    | 204,900    | 313,871    | 431,947    | 568,014    | 719,039    | 847,814    |
| Digital Programming Cost / Digital Sub.       | \$3.49    | \$3.40    | \$7.67     | \$7.67     | \$8.19     | \$8.54     | \$8.90     | \$9.28     |
| Digital Programming Expense                   | \$2.6     | \$3.9     | \$18.8     | \$28.9     | \$42.5     | \$58.2     | \$76.8     | \$94.4     |
| <b>Total Digital Subscribers - Major MSOs</b> |           |           |            |            |            |            |            |            |
|   | 2,253,003 | 5,775,657 | 11,431,353 | 17,007,747 | 22,099,752 | 26,409,055 | 29,994,797 | 33,078,145 |
| Avg. Progr. Cost / Sub                        | \$3.88    | \$3.63    | \$4.47     | \$4.80     | \$4.66     | \$4.74     | \$4.98     | \$5.48     |
| Total Digital Progr. Expense                  | \$105.0   | \$251.9   | \$613.0    | \$979.1    | \$1,237.1  | \$1,500.8  | \$1,793.1  | \$2,176.2  |
| <b>(based on coverage)</b>                    |           |           |            |            |            |            |            |            |
| <b>Other Subscribers (Small MSOs)</b>         |           |           |            |            |            |            |            |            |
| Avg. Digital Subscribers                      | 1,438,011 | 3,046,902 | 3,238,326  | 3,144,022  | 2,674,432  | 2,275,029  | 2,033,319  | 1,895,310  |
| Digital Programming Cost / Sub.               | \$4.08    | \$3.82    | \$4.69     | \$5.04     | \$4.90     | \$4.97     | \$5.23     | \$5.76     |
| Other Expense (Small MSOs)                    | \$70.4    | \$139.5   | \$182.3    | \$190.0    | \$157.2    | \$135.8    | \$127.6    | \$130.9    |
| <b>Total US Digital Subscribers</b>           |           |           |            |            |            |            |            |            |
|   | 3,691,014 | 8,822,559 | 14,669,678 | 20,151,768 | 24,774,184 | 28,684,084 | 32,028,116 | 34,973,455 |
| Avg. Progr. Cost / Sub                        | \$3.96    | \$3.70    | \$4.52     | \$4.83     | \$4.69     | \$4.75     | \$5.00     | \$5.50     |
| Digital Progr. Expense - Total US             | \$175.4   | \$391.5   | \$795.3    | \$1,169.1  | \$1,394.2  | \$1,636.6  | \$1,920.7  | \$2,307.1  |

Source: Morgan Stanley Research Estimates

## Exhibit 49

## Premium / Pay-per-view Programming Costs per Subscriber

|                                       | Pro Forma  |            |            |            |            |            |            |            |
|---------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
|                                       | 1999       | 2000       | 2001       | 2002E      | 2003E      | 2004E      | 2005E      | 2006E      |
| <b>Adelphia</b>                       |            |            |            |            |            |            |            |            |
| Avg. Basic Subscribers                | 5,605,840  | 5,757,607  | 5,802,522  | 5,823,326  | 5,848,700  | 5,873,000  | 5,897,000  | 5,921,000  |
| Avg. Premium Subscribers              | 2,570,754  | 2,687,801  | 2,776,368  | 2,883,285  | 3,023,032  | 3,163,563  | 3,273,877  | 3,339,119  |
| Premium Programming Cost / Basic Sub. | \$1.66     | \$1.78     | \$1.66     | \$1.73     | \$1.81     | \$1.89     | \$1.94     | \$1.97     |
| Premium Programming Expense           | \$111.7    | \$122.7    | \$115.2    | \$121.1    | \$127.0    | \$132.9    | \$137.5    | \$140.2    |
| PPV Programming Cost / Basic Sub.     | \$0.25     | \$0.26     | \$0.28     | \$0.36     | \$0.57     | \$0.96     | \$1.17     | \$1.23     |
| PPV Programming Expense               | \$16.5     | \$18.0     | \$19.4     | \$25.5     | \$39.9     | \$67.6     | \$82.7     | \$87.4     |
| <b>AOL Time Warner</b>                |            |            |            |            |            |            |            |            |
| Avg. Basic Subscribers                | 10,481,004 | 11,072,516 | 11,152,666 | 11,240,423 | 11,297,329 | 11,351,714 | 11,404,994 | 11,457,186 |
| Avg. Premium Subscribers              | 6,396,259  | 6,803,899  | 6,805,098  | 6,871,663  | 6,877,738  | 6,854,232  | 6,791,504  | 6,710,260  |
| Premium Programming Cost / Sub.       | \$2.21     | \$1.84     | \$1.68     | \$1.83     | \$1.83     | \$1.81     | \$1.79     | \$1.84     |
| Premium Programming Expense           | \$278.2    | \$244.9    | \$224.6    | \$247.4    | \$247.6    | \$246.8    | \$244.5    | \$253.6    |
| PPV Programming Cost / Sub.           | \$0.59     | \$0.60     | \$0.85     | \$0.88     | \$1.29     | \$1.74     | \$2.18     | \$2.63     |
| PPV Programming Expense               | \$74.1     | \$79.4     | \$114.2    | \$118.5    | \$175.5    | \$236.7    | \$298.1    | \$362.0    |
| <b>AT&amp;T</b>                       |            |            |            |            |            |            |            |            |
| Avg. Basic Subscribers                | 13,610,797 | 13,689,000 | 13,631,000 | 13,593,900 | 13,661,870 | 13,730,179 | 13,798,830 | 13,867,824 |
| Avg. Premium Subscribers              | 12,044,713 | 12,849,591 | 11,684,269 | 11,391,414 | 11,307,271 | 11,128,079 | 10,941,164 | 10,746,502 |
| Premium Programming Cost / Sub.       | \$2.86     | \$2.84     | \$2.83     | \$2.77     | \$2.83     | \$2.87     | \$2.90     | \$2.93     |
| Premium Programming Expense           | \$466.6    | \$466.4    | \$462.7    | \$451.1    | \$463.4    | \$472.1    | \$480.4    | \$488.3    |
| PPV Programming Cost / Sub.           | \$0.58     | \$0.64     | \$0.74     | \$0.85     | \$0.99     | \$1.17     | \$1.42     | \$1.67     |
| PPV Programming Expense               | \$94.5     | \$105.2    | \$121.8    | \$138.7    | \$161.9    | \$192.5    | \$234.7    | \$278.2    |
| <b>Cablevision</b>                    |            |            |            |            |            |            |            |            |
| Avg. Basic Subscribers                | 2,863,158  | 2,935,434  | 2,985,071  | 3,022,262  | 3,059,641  | 3,094,558  | 3,129,874  | 3,165,592  |
| Avg. Premium Subscribers              | 6,083,951  | 5,257,833  | 6,961,498  | 7,102,956  | 7,146,236  | 7,182,372  | 7,209,772  | 7,239,497  |
| Premium Programming Cost / Basic Sub. | \$5.83     | \$6.05     | \$5.73     | \$5.78     | \$5.86     | \$5.82     | \$5.78     | \$5.74     |
| Premium Programming Expense           | \$200.3    | \$213.2    | \$205.4    | \$209.6    | \$215.1    | \$216.2    | \$217.0    | \$217.9    |
| PPV Programming Cost / Sub.           | \$1.05     | \$0.82     | \$0.76     | \$0.62     | \$0.88     | \$1.25     | \$1.66     | \$2.20     |
| PPV Programming Expense               | \$36.1     | \$29.0     | \$27.4     | \$22.4     | \$32.2     | \$46.3     | \$62.5     | \$83.5     |
| <b>Charter Communications</b>         |            |            |            |            |            |            |            |            |
| Avg. Basic Subscribers                | 6,090,638  | 6,746,046  | 6,953,700  | 6,923,884  | 7,005,940  | 7,040,969  | 7,076,174  | 7,111,555  |
| Avg. Premium Subscribers              | 3,002,550  | 4,105,715  | 5,691,262  | 6,055,642  | 6,074,080  | 6,074,336  | 6,075,258  | 6,078,869  |
| Premium Programming Cost / Sub.       | \$1.79     | \$1.48     | \$1.38     | \$1.50     | \$1.52     | \$1.54     | \$1.57     | \$1.59     |
| Premium Programming Expense           | \$131.0    | \$120.0    | \$114.9    | \$125.0    | \$127.9    | \$130.4    | \$133.1    | \$135.8    |
| PPV Programming Cost / Sub.           | \$0.30     | \$0.34     | \$0.49     | \$0.74     | \$1.37     | \$1.83     | \$2.33     | \$2.91     |
| PPV Programming Expense               | \$28.7     | \$27.4     | \$41.3     | \$61.6     | \$115.0    | \$154.7    | \$198.1    | \$247.9    |

Source: Morgan Stanley Research Estimates

## Exhibit 50

## Premium / Pay-per-view Programming Costs per Subscriber (continued)

|   | Pro Forma  |            |            |            |            |            |            |            |
|---|------------|------------|------------|------------|------------|------------|------------|------------|
|   | 1999       | 2000       | 2001       | 2002E      | 2003E      | 2004E      | 2005E      | 2006E      |
| <b>Comcast</b>                                |            |            |            |            |            |            |            |            |
| Avg. Basic Subscribers                        | 8,147,919  | 8,297,842  | 8,428,942  | 8,511,500  | 8,592,000  | 8,671,500  | 8,750,000  | 8,827,500  |
| Avg. Premium Subscribers                      | 6,672,607  | 6,684,245  | 6,758,469  | 6,742,805  | 6,679,867  | 6,618,360  | 6,546,478  | 6,463,803  |
| Premium Programming Cost / Sub.               | \$2.48     | \$2.47     | \$2.23     | \$2.27     | \$2.22     | \$2.18     | \$2.14     | \$2.09     |
| Premium Programming Expense                   | \$242.9    | \$246.0    | \$225.4    | \$231.4    | \$229.2    | \$227.1    | \$224.7    | \$221.8    |
| PPV Programming Cost / Sub.                   | \$0.61     | \$0.56     | \$0.57     | \$0.73     | \$0.93     | \$1.31     | \$1.73     | \$2.20     |
| PPV Programming Expense                       | \$59.3     | \$55.7     | \$58.1     | \$74.1     | \$95.9     | \$136.2    | \$181.9    | \$232.5    |
| <b>Cox Communications</b>                     |            |            |            |            |            |            |            |            |
| Avg. Basic Subscribers                        | 5,944,256  | 6,141,969  | 6,200,737  | 6,244,294  | 6,303,539  | 6,347,663  | 6,392,087  | 6,436,842  |
| Avg. Premium Subscribers                      | 4,002,223  | 4,190,373  | 4,134,258  | 4,147,856  | 4,089,069  | 4,069,224  | 4,041,693  | 4,007,015  |
| Premium Programming Cost / Sub.               | \$2.42     | \$2.36     | \$2.35     | \$2.39     | \$2.28     | \$2.26     | \$2.23     | \$2.19     |
| Premium Programming Expense                   | \$172.3    | \$173.7    | \$174.8    | \$178.9    | \$172.8    | \$172.0    | \$170.8    | \$169.4    |
| PPV Programming Cost / Sub.                   | \$0.91     | \$0.96     | \$0.84     | \$1.18     | \$1.63     | \$2.13     | \$2.69     | \$3.31     |
| PPV Programming Expense                       | \$65.1     | \$71.1     | \$62.5     | \$88.1     | \$123.6    | \$162.1    | \$206.2    | \$255.8    |
| <b>Insight Communications</b>                 |            |            |            |            |            |            |            |            |
| Avg. Basic Subscribers                        | 1,268,494  | 1,271,838  | 1,277,900  | 1,290,119  | 1,302,769  | 1,315,000  | 1,327,000  | 1,339,000  |
| Avg. Premium Subscribers                      | 936,267    | 1,018,470  | 769,038    | 754,283    | 760,326    | 764,851    | 771,329    | 774,272    |
| Premium Programming Cost / Sub.               | \$2.14     | \$2.41     | \$1.97     | \$1.97     | \$1.96     | \$1.96     | \$1.95     | \$1.94     |
| Premium Programming Expense                   | \$32.5     | \$36.7     | \$30.3     | \$30.4     | \$30.7     | \$30.9     | \$31.1     | \$31.2     |
| PPV Programming Cost / Sub.                   | \$0.46     | \$0.49     | \$0.61     | \$0.75     | \$0.99     | \$1.41     | \$2.06     | \$2.74     |
| PPV Programming Expense                       | \$7.0      | \$7.4      | \$9.4      | \$11.6     | \$15.5     | \$22.2     | \$32.8     | \$44.0     |
| <b>Total Basic Subscribers - Major MSOs</b>   |            |            |            |            |            |            |            |            |
| Total Basic Subscribers - Major MSOs          | 54,012,106 | 55,912,251 | 56,432,537 | 56,649,708 | 57,071,787 | 57,424,584 | 57,775,968 | 58,126,498 |
| <b>Total Premium Subscribers - Major MSOs</b> |            |            |            |            |            |            |            |            |
| Total Premium Subscribers - Major MSOs        | 41,709,324 | 43,597,927 | 45,580,261 | 45,949,903 | 45,957,615 | 45,855,017 | 45,651,075 | 45,359,336 |
| <b>Total Digital Subscribers - Major MSOs</b> |            |            |            |            |            |            |            |            |
| Total Digital Subscribers - Major MSOs        | 2,253,003  | 5,775,657  | 11,431,353 | 17,007,747 | 22,099,752 | 26,409,055 | 29,994,797 | 33,078,145 |
| <b>Total Digital Premium Subscribers</b>      |            |            |            |            |            |            |            |            |
| Total Digital Premium Subscribers             | 3,298,863  | 3,420,051  | 4,388,886  | 7,242,060  | 10,996,898 | 14,734,878 | 18,174,294 | 21,333,858 |
| Avg. Premium Progr. Cost / Sub                | \$2.52     | \$2.42     | \$2.29     | \$2.35     | \$2.36     | \$2.36     | \$2.36     | \$2.38     |
| Avg. Premium Progr. Cost / Prem. Subscription | \$3.27     | \$3.10     | \$2.84     | \$2.89     | \$2.93     | \$2.96     | \$2.99     | \$3.05     |
| Premium Progr. Expense                        | \$1,635.5  | \$1,623.7  | \$1,553.3  | \$1,594.9  | \$1,613.7  | \$1,628.3  | \$1,639.1  | \$1,658.4  |
| Avg. PPV Progr. Cost / Sub                    | \$0.59     | \$0.59     | \$0.67     | \$0.80     | \$1.11     | \$1.48     | \$1.87     | \$2.28     |
| PPV Progr. Expense                            | \$381.3    | \$393.1    | \$454.1    | \$540.6    | \$759.5    | \$1,018.2  | \$1,297.0  | \$1,591.3  |
| <b>Other Basic Subs (Small MSOs)</b>          |            |            |            |            |            |            |            |            |
| Other Basic Subs (Small MSOs)                 | 14,525,874 | 13,456,669 | 13,421,965 | 13,627,988 | 13,626,599 | 13,692,869 | 13,760,020 | 13,827,522 |
| <b>Other Premium Subs (Small MSOs)</b>        |            |            |            |            |            |            |            |            |
| Other Premium Subs (Small MSOs)               | 5,374,574  | 4,709,834  | 4,429,248  | 4,088,397  | 4,087,980  | 4,107,861  | 4,128,006  | 4,148,257  |
| <b>Other Digital Subscribers</b>              |            |            |            |            |            |            |            |            |
| Other Digital Subscribers                     | 1,438,011  | 3,046,902  | 3,238,326  | 3,144,022  | 2,674,432  | 2,275,029  | 2,033,319  | 1,895,310  |
| <b>Other Digital Premium Subscribers</b>      |            |            |            |            |            |            |            |            |
| Other Digital Premium Subscribers             | 1,150,408  | 1,523,451  | 1,619,163  | 1,572,011  | 1,337,216  | 1,137,515  | 1,016,660  | 947,655    |
| Avg. Premium Programming Cost / Sub.          | \$2.52     | \$2.42     | \$2.29     | \$2.35     | \$2.36     | \$2.36     | \$2.36     | \$2.38     |
| Premium Progr. Expense                        | \$439.8    | \$390.8    | \$369.4    | \$383.7    | \$385.3    | \$388.3    | \$390.4    | \$394.5    |
| Avg. PPV Progr. Cost / Sub                    | \$0.59     | \$0.59     | \$0.67     | \$0.80     | \$1.11     | \$1.48     | \$1.87     | \$2.28     |
| PPV Progr. Expense                            | \$102.5    | \$94.6     | \$108.0    | \$130.1    | \$181.3    | \$242.8    | \$308.9    | \$378.5    |
| <b>Total US Basic Subscribers</b>             |            |            |            |            |            |            |            |            |
| Total US Basic Subscribers                    | 68,537,980 | 69,368,920 | 69,854,502 | 70,277,696 | 70,698,386 | 71,117,453 | 71,535,989 | 71,954,021 |
| <b>Total Premium Subscribers</b>              |            |            |            |            |            |            |            |            |
| Total Premium Subscribers                     | 51,533,169 | 53,251,263 | 56,017,558 | 58,852,370 | 62,379,709 | 65,835,270 | 68,970,034 | 71,789,106 |
| <b>Total Digital Subscribers - US</b>         |            |            |            |            |            |            |            |            |
| Total Digital Subscribers - US                | 3,691,014  | 8,822,559  | 14,669,678 | 20,151,768 | 24,774,184 | 28,684,084 | 32,028,116 | 34,973,455 |
| <b>Total Digital Premium Subscribers</b>      |            |            |            |            |            |            |            |            |
| Total Digital Premium Subscribers             | 4,449,272  | 4,943,502  | 6,008,049  | 8,814,071  | 12,334,114 | 15,872,393 | 19,190,953 | 22,281,513 |
| Avg. Prem. Progr. Cost / Sub                  | \$2.52     | \$2.42     | \$2.29     | \$2.35     | \$2.36     | \$2.36     | \$2.36     | \$2.38     |
| Premium Progr. Expense - Total US             | \$2,075.3  | \$2,014.5  | \$1,922.7  | \$1,978.5  | \$1,999.0  | \$2,016.6  | \$2,029.4  | \$2,052.9  |
| Avg. PPV Progr. Cost / Sub                    | \$0.59     | \$0.59     | \$0.67     | \$0.80     | \$1.11     | \$1.48     | \$1.87     | \$2.28     |
| PPV Progr. Expense                            | \$483.9    | \$487.7    | \$562.1    | \$670.7    | \$940.8    | \$1,261.0  | \$1,605.9  | \$1,969.8  |

E = Morgan Stanley Research Estimates

Broadband Cable Television - April 5, 2002

Please see the important disclosures at the end of this report.

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## An Analysis of Premium Television

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We have analyzed the subscriber, revenue, and earnings growth of the three major premium television networks from 1996 to 2001. We have come to the following conclusions, which should help frame our forecast for the industry over the next five years:

- **The premium networks have benefited from growth in digital cable and DBS penetration.** In part due to the marketing strategies employed by cable and satellite operators, the average premium penetration of a digital video subscriber is more than twice that of an analog subscriber. Further fueling premium penetration, premium households increased at a 6% CAGR from 1996 to 2001.
- **Increased premium penetration has resulted in a gradual shift in media usage from advertising-based television to non-advertising premium services.** As the television landscape becomes more fragmented, we expect non-advertising-based entertainment to continue to gain share from advertising-based content.
- **We estimate that 60–63% of the current premium households are digital video subscribers.** Once all of the premium households are converted to digital, we believe the cable industry will have to identify new strategies to increase digital cable penetration. We expect premium subscriptions to increase at a 4–5% CAGR through 2007, based on our expectation for 9–10% annual growth in digital subscribers. If digital-video penetration plateaus, we would expect premium subscriptions to stagnate.
- **The premium networks have built up pricing power by launching additional multiplexed channels to their subscriber base.** By providing incremental services, the premium industry has limited price discounting while driving subscriber penetration. We expect revenue per subscribing household to increase 2–3% per year from 2002 to 2007.
- **SVOD is likely to emerge as the next driver for digital video and premium subscription growth.** We look for subscription video on demand (SVOD) deployments to begin in earnest in late 2002. A successful SVOD deployment should provide the premium networks with new subscriber additions and incremental revenue per subscription, with limited incremental operating costs.
- **We expect HBO to continue to lead the industry, but believe that the market is clearly big enough for three competitors.** The three major players — HBO, Showtime, and Starz Encore — have differentiated themselves, and each has captured a respectable share of the growing premium market.

Over the past decade, the cable operators and the premium television providers have existed in a symbiotic relationship. Unlike their adversarial relationship with the basic cable networks, the cable operators have worked with the premium networks (HBO, Showtime, and Starz Encore) to enhance ARPU and boost digital video penetration rates. The premium networks have historically sold their content to the cable and DBS operators on a wholesale basis, allowing the operator to price the service in a manner that optimizes premium subscription and revenue growth. From 1998 to 2001, this pricing flexibility allowed the cable operators to bundle premium packages to boost digital cable penetration. Beginning in 2002, we expect the cable operators and premium networks to expand on their relationship through the deployment of subscription video on demand. For the cable operators, we believe SVOD could be the key to driving digital video to its current base of basic analog subscribers. For the premium network, we believe SVOD could boost both subscriber and pricing growth over the next three to four years with minimal incremental cost.

From 1996 to 2001, growth in digital video penetration (digital cable and DBS) enhanced premium subscription growth. In an effort to increase digital video penetration, both cable and DBS providers have offered bundled premium packages that offer increased discounts to subscribers that take multiple premium services. While the number of unique premium households (defined as a household that receives at least one premium service) has remained relatively constant over the past five years, an increase in the number of premium subscriptions per household caused premium subscription units to increase at a 10% CAGR from 1996 to 2001.

Growth in premium subscriptions has shifted media usage trends from advertising-based broadcast and cable networks to non-advertising-based premium television. In 1996, the average individual spent 1.7 hours per week watching premium television, representing 5.5% of total television usage. By 2001, we estimate that average premium usage will reach to 2.1 hours per week, represent-

ing 6.3% of television usage. All of the major premium networks offer multiplexed movie channels that highlight specific genres of content. Multiplexed offerings increase customer choice, which we believe has caused the aggregate ratings of the premium networks to climb. We believe the logical extension of the multiplexed strategy is subscription video on demand, in which the consumer has the ability to view the majority of the content shown on the multiplexed channels in a given month whenever he or she chooses. We believe the added convenience of SVOD will continue to divert television usage from advertising-based to premium television.

**From 2002 to 2007, we expect premium penetration within digital households to gradually decline, as the marginal digital subscriber is likely to take fewer premium services than the early adopters.** We estimate that the vast majority of analog premium subscribers will have upgraded to digital by the end of 2002. Thus, we believe that the next wave of digital subscribers, current basic-only subscribers, are less likely to subscribe to multiple premium services.

The cable operators are faced with the risk that the rate of digital additions will quickly deteriorate after the analog premium subscriber base is fully converted to digital. In an effort to boost digital penetration above the premium penetration threshold of 45–50%, we expect the major US cable operators to begin a major marketing push behind SVOD. With a stockpile of first-run feature films and non-advertising-based original programming, the premium networks appear to be well positioned to capitalize on the growth in SVOD. In our opinion, a successful SVOD deployment by the cable industry will benefit the premium networks by increasing premium take rates within current digital households, as well as encouraging current analog subscribers to upgrade to a digital premium package.

**From 2002 to 2007, we expect premium revenue and EBITDA to increase at CAGRs of 6–7% and 8–9%, respectively.** In 2000 and 2001, the premium networks kept wholesale pricing relatively stable, which enabled the cable and satellite operators to boost digital video penetration. We believe that a critical base of digital subscribers has been established, and expect the premium networks to pass through moderate (2–3%) price increases for their digital premium packages. We believe our pricing assumptions are relatively conservative, since all of the premium networks have enhanced the breadth and depth of their digital packages through multiplexed offerings.

While not currently reflected in our industry forecasts, we believe SVOD could boost both premium subscription growth and revenue per subscriber growth by 100–200 basis points per year through 2007. Combined, these two elements would enhance the long-term annual revenue growth rate of the premium television networks from 6–7% to 9–10%. Since there should be only minimal incremental costs to the premium networks associated with SVOD, we expect additional revenue growth to have a magnified impact on earnings growth.

We believe the competitive strategies employed by HBO, Showtime, and Starz Encore position all three networks to maintain their respective shares of the growing premium television industry. Each network has differentiated itself from its competitors — Starz Encore through its value proposition, HBO through its brand equity and differentiated original programming, and Showtime through its demographic focus. Since the networks are not close substitutes for one another, consumers have been more inclined to subscribe to multiple premium services than switch back and forth among the three services. In our view, high barriers to entry — a product of each network's strong brand awareness and control over premium content and original programming — make it extremely unlikely for a new competitor to emerge within the premium network industry.

### Premium Revenue & Operator Programming Cost Analysis

Exhibit 51 compares our premium network revenue forecast with our cable television industry revenue and programming cost projections. We expect gross margins on video to decline from 67–68% in 2001 to 64–65% in 2006, reflecting 8–9% annual video revenue growth offset by 10–11% annual growth in programming expenses. As outlined in the exhibit, we expect escalating margins on digital/premium revenue (from 54% in 2001 to 58% in 2006) to be offset by decline margins on basic programming (71% in 2001 to 68% in 2006). Incremental revenue and digital penetration stemming from SVOD would likely enhance aggregate video gross profits above our current projections.

Based on our forecasts for the top eight cable operators, we expect cable video revenue to increase at an 8–9% CAGR from 2001 to 2006, fueled by a 29–30% increase in digital revenue. Our premium revenue forecast of 1–2% CAGR growth is a bit misleading — many cable operators offer bundled digital packages that include premium services.

Typically, the entire revenue is reported as digital revenue. To avoid this allocation issue, we believe it is more useful to analyze premium and digital revenue on a combined basis. Accordingly, we expect digital/premium revenue to increase at a 14–15% CAGR through 2006.

Based on our premium-channel revenue forecasts outlined in this report, we expect the cable industry's share of premium programming costs to increase at an 8–9% CAGR through 2006. Combined with approximately \$2.00 per subscriber/month in digital basic programming expenses, we expect aggregate premium/digital programming expenses to increase at a 12–13% CAGR through 2006. Currently, many start-up digital networks do not receive affiliate fees from cable operators. As their distribution base expands and the quality of their content improves, we expect moderate growth in non-premium digital channel affiliate fees. Combined with basic programming costs (expected to increase at a 7–8% CAGR) and PPV costs (assumed at 55% of PPV revenue), we expect aggregate video programming expenses to increase at 10–11% CAGR.

Exhibit 51

### Cable Operator Revenue/ Programming Cost Projections

|                                     | Pro Forma |          |          |          |          |          |          |          |
|-------------------------------------|-----------|----------|----------|----------|----------|----------|----------|----------|
|                                     | 1999      | 2000     | 2001     | 2002E    | 2003E    | 2004E    | 2005E    | 2006E    |
| Basic Revenue                       | 19,890    | 21,305   | 22,405   | 23,610   | 24,924   | 26,325   | 27,803   | 29,363   |
| Premium Revenue                     | 3,105     | 3,152    | 2,949    | 3,036    | 3,070    | 3,096    | 3,115    | 3,151    |
| Digital Revenue                     | 326       | 834      | 1,713    | 2,614    | 3,542    | 4,432    | 5,270    | 6,086    |
| Total Subscriber Video Rev.         | 23,320    | 25,292   | 27,067   | 29,260   | 31,536   | 33,853   | 36,188   | 38,600   |
| PPV Revenue                         | 719.5     | 691.1    | 825.6    | 983.0    | 1,379.4  | 1,847.3  | 2,358.2  | 2,893.2  |
| Total Video Revenue                 | \$24,040  | \$25,983 | \$27,893 | \$30,243 | \$32,915 | \$35,700 | \$38,546 | \$41,493 |
| Change %                            |           | 8.1%     | 7.4%     | 8.4%     | 8.8%     | 8.5%     | 8.0%     | 7.6%     |
| Basic Programming Expenses          | 5,111     | 5,743    | 6,414    | 7,055    | 7,682    | 8,233    | 8,819    | 9,443    |
| % of Basic Revenue                  | 25.7%     | 27.0%    | 28.6%    | 29.9%    | 30.8%    | 31.3%    | 31.7%    | 32.2%    |
| Premium Expenses                    | 1,635     | 1,624    | 1,553    | 1,595    | 1,614    | 1,628    | 1,639    | 1,658    |
| Digital Premium Programming Expense | 6         | 135      | 350      | 46       | 621      | 835      | 1,009    | 1,172    |
| Digital Basic Programming Expenses  | 38        | 117      | 263      | 517      | 616      | 666      | 784      | 1,004    |
| Total Premium/Digital Expenses      | 1,740     | 1,876    | 2,166    | 2,574    | 2,851    | 3,129    | 3,432    | 3,835    |
| % of Premium/Digital Revenue        | 50.7%     | 47.0%    | 46.5%    | 45.6%    | 43.1%    | 41.6%    | 40.9%    | 41.5%    |
| Total Subscriber Video Expense      | 6,852     | 7,619    | 8,580    | 9,629    | 10,533   | 11,362   | 12,252   | 13,278   |
| PPV                                 | 381       | 393      | 454      | 541      | 759      | 1,018    | 1,297    | 1,591    |
| % of PPV Revenue                    | 53%       | 57%      | 55%      | 55%      | 55%      | 55%      | 55%      | 55%      |
| Total Programming Expense           | \$7,233   | \$8,012  | \$9,034  | \$10,170 | \$11,292 | \$12,380 | \$13,549 | \$14,869 |
| % of Revenue                        | 30.1%     | 30.8%    | 32.4%    | 33.6%    | 34.3%    | 34.7%    | 35.1%    | 35.8%    |
| Gross Margin %                      |           |          |          |          |          |          |          |          |
| Basic                               | 74%       | 73%      | 71%      | 70%      | 69%      | 69%      | 68%      | 68%      |
| Premium/Digital                     | 49%       | 53%      | 54%      | 54%      | 57%      | 58%      | 59%      | 58%      |
| PPV                                 | 47%       | 43%      | 45%      | 45%      | 45%      | 45%      | 45%      | 45%      |
| Total Video Programming             | 70%       | 69%      | 68%      | 66%      | 66%      | 65%      | 65%      | 64%      |

Source: Morgan Stanley Research Estimates

**Premium Usage Trends**

The average time spent watching premium television (non-advertising based pay television networks) has been on the rise. In 1996, the average individual watched 1.7 hours of premium television per week. By 2001, we average usage increased to an estimated 2.1 hours per week, reflecting a 20% increase. Based on our estimate that premium-channel subscribers represent 38% of US households (40% of television households), we estimate that the average premium subscriber watched 5.6 hours of premium television per week in 2001, or approximately two movies per week ( $2.1/38\% = 5.6$  hours). We believe the increase in premium usage over the past five years has been driven by growth in premium penetration, coupled with a moderate increase in usage per premium subscriber.

We expect average household premium usage per US household to reach 2.3 hours per week by 2003. Growth in digital cable and DBS satellite penetration should boost

premium channel penetration from 44% of television households in 2001 to 48% by 2003. Our usage forecast is based on the assumption that usage per subscribing household remains steady at 5.6 hours per week.

While not currently in our forecasts, we believe the commercial rollout of subscription VOD services could increase premium-channel usage an additional 10–15% over the next three years. We believe that an interactive offering can enhance usage patterns in two ways:

- On-demand applications should increase digital-video and premium penetration levels by encouraging basic subscribers to upgrade and limiting churn among current premium subscribers.
- The increased choice and ease of use afforded by the full VCR functionality of SVOD should increase usage patterns of current subscribers.

Exhibit 52

**Television Usage Trends - 1996-2005E**

| Hours per Week of Usage                | 1996  | 1997  | 1998  | 1999  | 2000  | 2001E | 2002E | 2003E | 2004E | 2005E | '96-'00<br>CAGR | '01-'05<br>CAGR |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-----------------|-----------------|
| Broadcast TV                           | 18.9  | 17.8  | 17.0  | 16.7  | 17.4  | 17.0  | 16.5  | 16.1  | 15.8  | 15.5  | (2.1%)          | (2.3%)          |
| Cable TV                               | 9.3   | 10.0  | 10.9  | 11.9  | 12.4  | 12.8  | 13.3  | 13.7  | 14.0  | 14.3  | 7.3%            | 2.8%            |
| Premium Channels                       | 1.7   | 1.9   | 1.9   | 2.0   | 2.0   | 2.0   | 2.2   | 2.3   | 2.3   | 2.4   | 4.0%            | 4.0%            |
| Home Video/DVD                         | 1.0   | 1.0   | 1.1   | 1.1   | 1.1   | 1.1   | 1.2   | 1.2   | 1.3   | 1.3   | 1.8%            | 3.6%            |
| Total Television                       | 31.0  | 30.7  | 30.9  | 31.6  | 32.9  | 32.9  | 33.2  | 33.3  | 33.4  | 33.5  | 1.5%            | 0.4%            |
| Total Media Usage                      | 66.3  | 65.9  | 66.7  | 67.8  | 68.8  | 68.9  | 69.5  | 69.8  | 70.2  | 70.4  | 0.9%            | 0.6%            |
| <b>Share of Total Television Usage</b> |       |       |       |       |       |       |       |       |       |       |                 |                 |
| Broadcast TV                           | 61.1% | 57.8% | 55.0% | 52.8% | 53.0% | 51.5% | 49.6% | 48.4% | 47.2% | 46.2% | (811)           | (531)           |
| Cable TV                               | 30.1% | 32.5% | 35.2% | 37.6% | 37.6% | 38.8% | 40.2% | 41.2% | 42.0% | 42.7% | 751             | 391             |
| Premium Channels                       | 5.5%  | 6.3%  | 6.3%  | 6.3%  | 6.1%  | 6.2%  | 6.7%  | 6.8%  | 7.0%  | 7.1%  | 56              | 93              |
| Home Video/DVD                         | 3.3%  | 3.3%  | 3.4%  | 3.3%  | 3.4%  | 3.4%  | 3.5%  | 3.6%  | 3.8%  | 3.9%  | 4               | 46              |
| Advertising-based                      | 91.1% | 90.4% | 90.3% | 90.4% | 90.5% | 90.4% | 89.8% | 89.5% | 89.2% | 89.0% | (60)            | (140)           |
| Non-advertising based                  | 8.9%  | 9.6%  | 9.7%  | 9.6%  | 9.5%  | 9.6%  | 10.2% | 10.5% | 10.8% | 11.0% | 60              | 140             |

E = Morgan Stanley Research Estimate

Source: Veronis Suhler

**Premium Subscriber Analysis**

We expect premium subscriptions to increase at a 4.5–5.0% CAGR from 2002 to 2007. Over the past five years, premium take-rates have been considerably higher on digital cable and DBS than on analog cable. As a result, the migration to digital video has helped fuel 9–10% annual growth in premium subscriptions over the past five years. We believe that some of this growth is attributed to price promotions by cable and DBS operators designed to fuel digital video penetration. While the premium networks often coordinate marketing efforts with the cable and satellite providers, premium price discounting is equivalent to an incremental marketing expense for operators. The discount is booked as a reduction of revenue rather than an expense, but the impact on EBITDA is identical. The wholesale revenue received by the premium networks does not vary with the operators' pricing decisions.

**Premium take-rates have been higher on digital cable and DBS than on analog cable. . . the migration to digital video has fueled 9–10% annual growth in premium subscriptions over the past five years.**

We expect premium penetration rates of digital video households to gradually decline as new digital video subscribers are likely to take less premium services than the early adopters. As a result, we expect premium subscriptions to increase at about half the 9–10% projected CAGR in digital video penetration from 2002 to 2007.

We expect subscription VOD services to be the next driver of premium subscriber growth over the next five years. Most of the major cable MSOs are testing SVOD services, in an effort to boost subscriptions, reduce churn, and enhance the revenue growth of their digital video product. We believe a successful SVOD rollout will likely encourage both basic and digital customers to upgrade to premium services that maximize the value of SVOD's capabilities.

**1996–2001 Review: The Evolution of Premium TV**  
At the end of 2001, we estimate that there were approximately 101–102 million aggregate premium subscription units. We estimate that each premium subscriber takes approximately 2.2 premium services, equating to approximately 45–47 million unique premium subscribers, representing 55–56% multichannel penetration. In our calcula-

tion of unique premium subscribers, we account for premium subscribers that receive multiple services from a certain provider (i.e., a subscriber that receives both HBO and Cinemax from AOL Time Warner) and subscribers that receive multiple services from competitive providers (i.e., a subscriber that receives HBO and Starz). In our analysis, a premium subscriber that receives three premium services would be counted as one unique premium subscriber and three subscription units.

In 2001, we estimate that the unique premium-subscriber universe is currently comprised of 16–17 million DBS households (92% penetration), 13–14 million digital cable households (89% penetration), and 17–18 million analog cable households (34% penetration). Based on these assumptions, we estimate that digital video (cable and DBS) already accounts for 60–65% of premium households. This makes intuitive sense if we consider that digital video comprises 38–39% of the multichannel universe and that virtually all of the early digital adopters were already premium subscribers.

More favorable premium subscription trends on digital cable and DBS has enhanced premium-subscription growth. From 1996 to 2001, higher premium take-rates on digital systems caused premium subscriptions to increase at a 10–11% CAGR, about twice the 5–6% growth rate experienced in premium households. In 1996, we estimate that there were approximately 63–64 million aggregate subscription units, spread across 34–35 million households, equating to 1.8 services per premium subscriber. By 2001, the number of premium services per premium subscriber jumped to 2.2, reflecting an influx of digital cable and DBS subscribers that receive an average of 2.6–2.7 premium services.

We believe the increase in premium take-rates on digital reflects the impact of bundled premium packages, in which subscribers are marketed multiple premium services on digital for a modest incremental fee over their current premium bill on analog. We believe the bundled premium offering has both boosted digital penetrations as well as encouraged new digital households to subscribe to multiple premium services to get the most value from the digital platform.

We estimate that about 90% of DBS and digital-cable subscribers receive at least one premium service. We estimate that the average digital video premium subscriber received 3.0 services in 1996, declining to 2.6–2.7 services

by 2001. We estimate that in 2001 DBS and digital cable households currently account for 43% and 34% of aggregate premium subscriptions, respectively.

The migration to digital video has caused a gradual decline in the premium usage trends of analog cable households. In 1996, we estimate that there were 51–52 million analog premium subscriptions (80–81% of aggregate subscriptions), spread across 30–31 premium analog households. By 2001, we estimate that the number of analog premium subscriptions declined to 22–23 million, across 17–18 million households. Reflecting the migration of heavy-premium users to digital, we estimate that the number of subscriptions per premium subscriber on analog declined from 1.7 in 1996 to 1.3 in 2001.

Over the next five years, we expect the favorable impact of digital video penetration on premium take-rates to gradually subside. We look for subscription video on demand (SVOD) to emerge as the next driver of premium subscription growth, the impact of which could be felt as early as the second half of 2002.

#### 2002–2007 Preview: Anticipating the impact of SVOD.

From 2002 to 2007, growth in digital video penetration should continue to boost premium subscription levels. We expect digital video penetration (DBS and cable) to increase from 32.2 million in 2001 (38–39% multichannel penetration) to 39–40 million in 2002 (45–46%). From 2002 to 2007, we expect digital video penetration to increase at a 9–10% CAGR, to 62–63 million households by 2007.

Reflecting a decline in premium penetration of new digital additions, the long-term growth rate of premium subscriptions should be about half that of digital-video growth.

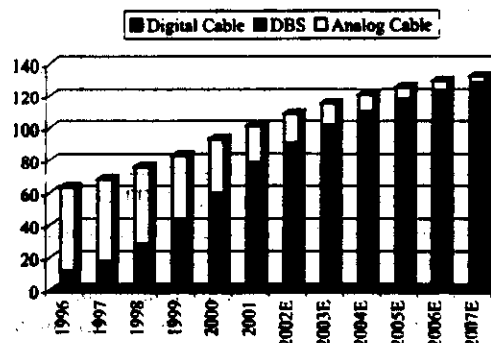
While more favorable take-rates on digital should enhance premium penetration, we expect new digital additions to take fewer premium services than current digital subscribers. By 2003, the vast majority of analog premium subscribers will likely have already migrated to digital cable or DBS. We expect premium penetration of digital households to remain flat at 90–95% in 2002–2007. However, reflecting the conversion of non-premium subscribers, we expect that the subscription units per digital household will drop from about 2.7 in 2001 to 2.5 in 2007.

*Broadband Cable Television – April 5, 2002*

Please see the important disclosures at the end of this report.

Exhibit 53

#### Premium Subscriber Forecast



Source: Morgan Stanley Research Estimates

Exhibit 53 demonstrates our expectations for a gradual migration of premium subscribers from analog cable to digital cable and DBS. By 2007, we expect nearly all premium subscribers to be on digital or DBS platforms. We anticipate that many operators will begin to only offer premium services as part of a digital package, with only basic services available on analog.

While we expect premium subscription growth to be about half the rate of digital video growth from 2002 to 2007, our forecasts do not reflect the impact of SVOD on premium take-rates. According to *Multichannel News*, "internal Comcast surveys show that although 35% of digital subscribers were interested in VOD, 40% of analog subscribers expressed an interest in digital once VOD was included (*Multichannel News*, March 11, 2002)." While some of the analog customers that upgrade to digital may only opt for free VOD services with on-demand basic programming from the likes of Discovery Communications, A&E, and Nickelodeon, we expect a significant percentage to upgrade to a premium digital package to gain access to on-demand premium content.

#### SVOD strategies vary by premium network.

Starz Encore intends to offer Starz in Demand, in which approximately 100–120 of its feature films, including current releases and older classics should be available each month for on-demand usage with full VCR functionality. Both HBO and Showtime have focused more on providing original programming series, such as the *Sopranos* and *Queer as Folk* available on SVOD, along with a limited selection of feature films. We believe Showtime and HBO's emphasis on original programming reflects both networks' reluctance to cannibalize DVD sell-through and

video rental revenue generated within their sister film studios Warner Brothers and Paramount. Since Starz Encore is independent of any film studio, the network does not have the same hesitation in taking share from other distribution windows.

**SVOD deployment timeline.** By the end of 2002, we expect the domestic SVOD-enabled subscriber base to reach approximately 2.1 million digital subscribers, representing 10.8% of the digital cable footprint. By 2006, we expect almost all digital subscribers to be VOD enabled, with the VOD-enabled base reaching 34–35 million.

**The pricing for on-demand premium service has yet to be determined.** We expect the cable operators to offer SVOD premium services for an incremental fee of \$3–5 per month over its current premium rates. We expect this fee to

allow for SVOD capabilities across all of the premium services a subscriber receives. Since many subscribers receive multiple premium services, the cable operator is faced with the dilemma of how to split the incremental SVOD fee with the multiple premium providers. If each premium service commands an additional \$1.00 in wholesale revenue for SVOD, the operator's incremental gross margin on SVOD should erode as additional premium services are added. We believe, however, that this may be acceptable for the cable operators, since consumer acceptance of SVOD will likely reduce churn and increase premium penetration. From the cable operator's perspective, the lost margin on SVOD is not likely to outweigh the incremental margin generated from subscribers that take more than one multiplexed premium service. (To get SVOD Starz Encore or HBO, we expect the operator will require a subscriber to also pay for the current multiplexed premium offering.)

**Exhibit 54**  
**Cable Operator S-VOD Forecast**
*In Thousands*

|  | Pro Forma     |               | Pro Forma      |                |                |                |                |
|--|---------------|---------------|----------------|----------------|----------------|----------------|----------------|
|  | 2000          | 2001          | 2002E          | 2003E          | 2004E          | 2005E          | 2006E          |
| <b>Digital Homes Passed</b>              |               |               |                |                |                |                |                |
| Adelphia                                 | 8,758         | 9,549         | 9,692          | 9,838          | 9,985          | 10,135         | 10,287         |
| AT&T (1)                                 | 21,794        | 23,337        | 24,922         | 25,296         | 25,676         | 26,061         | 26,452         |
| Cablevision                              | 0             | 550           | 4,420          | 4,486          | 4,553          | 4,622          | 4,691          |
| Charter Communications                   | 8,793         | 10,638        | 11,249         | 11,437         | 11,628         | 11,822         | 12,019         |
| Comcast                                  | 11,162        | 13,596        | 13,864         | 14,072         | 14,283         | 14,497         | 14,715         |
| Cox Communications                       | 7,397         | 9,258         | 9,424          | 9,565          | 9,709          | 9,854          | 10,002         |
| Insight Communications                   | 777           | 1,144         | 2,170          | 2,202          | 2,235          | 2,269          | 2,303          |
| AOL Time Warner                          | 12,829        | 18,266        | 18,540         | 18,818         | 19,100         | 19,387         | 19,678         |
| Other                                    | 7,005         | 7,500         | 7,500          | 7,500          | 7,500          | 7,500          | 7,500          |
| <b>Total</b>                             | <b>78,515</b> | <b>93,839</b> | <b>101,781</b> | <b>103,214</b> | <b>104,669</b> | <b>106,146</b> | <b>107,646</b> |
| <i>Top 8 as % of Total</i>               | <i>91%</i>    | <i>92%</i>    | <i>93%</i>     | <i>93%</i>     | <i>93%</i>     | <i>93%</i>     | <i>93%</i>     |
| <b>Digital Video Subscribers</b>         |               |               |                |                |                |                |                |
| Adelphia                                 | 723           | 1,503         | 2,159          | 2,771          | 3,267          | 3,597          | 3,809          |
| AT&T (1)                                 | 2,430         | 3,475         | 4,477          | 5,215          | 5,879          | 6,454          | 6,953          |
| Cablevision                              | 0             | 17            | 145            | 466            | 700            | 948            | 1,243          |
| Charter Communications                   | 1,178         | 2,145         | 2,780          | 3,308          | 3,721          | 4,127          | 4,549          |
| Comcast                                  | 1,216         | 1,869         | 2,398          | 2,839          | 3,239          | 3,570          | 3,852          |
| Cox Communications                       | 842           | 1,386         | 2,009          | 2,535          | 3,010          | 3,427          | 3,798          |
| Insight Communications                   | 152           | 258           | 370            | 494            | 642            | 796            | 900            |
| AOL Time Warner                          | 1,564         | 2,976         | 4,254          | 5,441          | 6,263          | 6,930          | 7,495          |
| Other                                    | 718           | 1,041         | 1,561          | 1,707          | 1,962          | 2,179          | 2,374          |
| <b>Total</b>                             | <b>8,823</b>  | <b>14,670</b> | <b>20,152</b>  | <b>24,774</b>  | <b>28,684</b>  | <b>32,028</b>  | <b>34,973</b>  |
| <i>Top 8 as % of Total</i>               | <i>92%</i>    | <i>93%</i>    | <i>92%</i>     | <i>93%</i>     | <i>93%</i>     | <i>93%</i>     | <i>93%</i>     |
| <b>S-VOD Subscribers</b>                 |               |               |                |                |                |                |                |
| Adelphia                                 | 0             | 80            | 110            | 1,110          | 1,960          | 2,880          | 3,810          |
| AT&T (1)                                 | 0             | 0             | 350            | 1,560          | 3,530          | 5,810          | 6,950          |
| Cablevision                              | 0             | 20            | 140            | 470            | 700            | 950            | 1,240          |
| Charter Communications                   | 0             | 50            | 480            | 1,650          | 2,980          | 4,130          | 4,550          |
| Comcast                                  | 0             | 0             | 430            | 2,130          | 2,920          | 3,570          | 3,850          |
| Cox Communications                       | 0             | 0             | 0              | 1,520          | 2,410          | 3,430          | 3,800          |
| Insight Communications                   | 0             | 0             | 40             | 490            | 640            | 800            | 900            |
| AOL Time Warner                          | 0             | 150           | 610            | 3,260          | 5,010          | 6,930          | 7,490          |
| Other                                    | 0             | 0             | 0              | 170            | 590            | 1,090          | 1,660          |
| <b>Total</b>                             | <b>0</b>      | <b>300</b>    | <b>2,160</b>   | <b>12,360</b>  | <b>20,740</b>  | <b>29,590</b>  | <b>34,250</b>  |
| <b>S-VOD Penetration of Digital Subs</b> |               |               |                |                |                |                |                |
| Adelphia                                 | 0.0%          | 5.0%          | 5.0%           | 40.0%          | 60.0%          | 80.0%          | 100.0%         |
| AT&T (1)                                 | 0.0%          | 0.0%          | 7.7%           | 30.0%          | 60.0%          | 90.0%          | 100.0%         |
| Cablevision                              | 0.0%          | 100.0%        | 100.0%         | 100.0%         | 100.0%         | 100.0%         | 100.0%         |
| Charter Communications                   | 0.0%          | 2.5%          | 17.3%          | 50.0%          | 80.0%          | 100.0%         | 100.0%         |
| Comcast                                  | 0.0%          | 0.0%          | 18.0%          | 75.0%          | 90.0%          | 100.0%         | 100.0%         |
| Cox Communications                       | 0.0%          | 0.0%          | 0.0%           | 60.0%          | 80.0%          | 100.0%         | 100.0%         |
| Insight Communications                   | 0.0%          | 0.0%          | 10.0%          | 100.0%         | 100.0%         | 100.0%         | 100.0%         |
| AOL Time Warner                          | 0.0%          | 5.0%          | 14.3%          | 60.0%          | 80.0%          | 100.0%         | 100.0%         |
| Other                                    | 0.0%          | 0.0%          | 0.0%           | 10.0%          | 30.0%          | 50.0%          | 70.0%          |
| <b>Total</b>                             | <b>0.0%</b>   | <b>2.0%</b>   | <b>10.7%</b>   | <b>49.9%</b>   | <b>72.3%</b>   | <b>92.4%</b>   | <b>97.9%</b>   |

*E = Morgan Stanley Research Estimates*
**Broadband Cable Television – April 5, 2002**
**Please see the important disclosures at the end of this report.**

## Exhibit 55

## Premium Subscriber Analysis

| Subscriber Analysis<br>(in million) | 1996   | 1997   | 1998   | 1999   | 2000   | 2001   | 2002E  | 2003E  | 2004E  | 2005E  | 2006E  | 2007E  |
|-------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Home Box Office</b>              |        |        |        |        |        |        |        |        |        |        |        |        |
| HBO                                 | 22.4   | 22.9   | 24.1   | 24.7   | 26.3   | 27.8   | 29.3   | 30.9   | 32.2   | 33.4   | 34.5   | 35.0   |
| Cinemax                             | 10.0   | 10.0   | 10.5   | 11.0   | 10.7   | 10.8   | 11.4   | 11.8   | 12.2   | 12.5   | 12.7   | 12.9   |
| Total Subscribers                   | 32.4   | 32.9   | 34.6   | 35.7   | 37.0   | 38.5   | 40.7   | 42.7   | 44.4   | 45.9   | 47.2   | 47.9   |
| % Change                            |        | 1.6%   | 5.1%   | 3.2%   | 3.6%   | 4.1%   | 5.6%   | 4.9%   | 4.0%   | 3.3%   | 2.9%   | 1.5%   |
| Aggregate Subscription Units        | 32.4   | 32.9   | 34.6   | 35.7   | 37.0   | 38.5   | 40.7   | 42.7   | 44.4   | 45.9   | 47.2   | 47.9   |
| Est. Channels per HH                | 1.4    | 1.4    | 1.4    | 1.4    | 1.4    | 1.3    | 1.3    | 1.3    | 1.3    | 1.3    | 1.3    | 1.3    |
| Total Subscribing Households        | 23.4   | 23.9   | 25.2   | 25.8   | 27.3   | 28.8   | 30.5   | 32.1   | 33.4   | 34.7   | 35.8   | 36.3   |
| % Basic Penetration                 |        | 33.9%  | 35.6%  | 35.3%  | 34.3%  | 34.7%  | 35.6%  | 36.5%  | 37.4%  | 38.1%  | 38.8%  | 38.8%  |
| <b>Showtime</b>                     |        |        |        |        |        |        |        |        |        |        |        |        |
| Showtime                            | 12.3   | 13.9   | 14.9   | 17.4   | 21.2   | 23.5   | 25.2   | 26.4   | 27.2   | 27.9   | 28.4   | 28.7   |
| The Movie Channel                   | 2.0    | 2.5    | 2.9    | 3.5    | 4.2    | 4.7    | 5.0    | 5.3    | 5.4    | 5.6    | 5.7    | 5.7    |
| FLIX                                | 1.6    | 1.8    | 2.0    | 2.3    | 2.8    | 3.1    | 3.4    | 3.5    | 3.6    | 3.7    | 3.8    | 3.8    |
| Aggregate Subscribers               | 15.9   | 18.2   | 19.7   | 23.2   | 28.2   | 31.3   | 33.6   | 35.2   | 36.3   | 37.1   | 37.8   | 38.3   |
| % Change                            |        | 14.5%  | 8.2%   | 17.8%  | 21.6%  | 11.0%  | 7.5%   | 4.6%   | 3.2%   | 2.3%   | 1.8%   | 1.1%   |
| Aggregate Subscription Units        | 15.9   | 18.2   | 19.7   | 23.2   | 28.2   | 31.3   | 33.6   | 35.2   | 36.3   | 37.1   | 37.8   | 38.3   |
| Est. Channels per HH                | 1.3    | 1.3    | 1.3    | 1.3    | 1.3    | 1.3    | 1.3    | 1.3    | 1.3    | 1.3    | 1.3    | 1.3    |
| Total Subscribing Households        | 12.3   | 13.9   | 14.9   | 17.4   | 21.2   | 23.5   | 25.2   | 26.4   | 27.2   | 27.9   | 28.4   | 28.7   |
| % Multichannel Penetration          |        | 19.8%  | 21.1%  | 23.8%  | 26.5%  | 28.3%  | 29.4%  | 30.0%  | 30.4%  | 30.6%  | 30.8%  | 30.7%  |
| <b>Starz Encore Group</b>           |        |        |        |        |        |        |        |        |        |        |        |        |
| Starz                               | 4.9    | 6.7    | 8.8    | 10.2   | 11.5   | 13.0   | 14.4   | 15.8   | 16.9   | 17.9   | 18.9   | 19.7   |
| Encore                              | 10.2   | 10.4   | 12.7   | 13.7   | 16.3   | 18.2   | 19.9   | 21.5   | 22.9   | 24.2   | 25.4   | 26.5   |
| Total Subscriber Base               | 15.1   | 17.1   | 21.5   | 24.0   | 27.9   | 31.2   | 34.3   | 37.3   | 39.8   | 42.1   | 44.3   | 46.2   |
| Growth %                            |        | 13.3%  | 25.6%  | 11.8%  | 16.2%  | 12.1%  | 9.7%   | 8.7%   | 6.9%   | 5.8%   | 5.1%   | 4.4%   |
| Aggregate Subscription Units        | 15.1   | 17.1   | 21.5   | 24.0   | 27.9   | 31.2   | 34.3   | 37.3   | 39.8   | 42.1   | 44.3   | 46.2   |
| Starz Encore services per sub       | 1.5    | 1.6    | 1.7    | 1.7    | 1.7    | 1.7    | 1.7    | 1.7    | 1.7    | 1.7    | 1.7    | 1.7    |
| Total Subscribing Households        | 10.2   | 10.4   | 12.7   | 13.7   | 16.3   | 18.2   | 19.9   | 21.5   | 22.9   | 24.2   | 25.4   | 26.5   |
| % Basic Penetration                 | 14.7%  | 14.8%  | 17.9%  | 18.8%  | 20.5%  | 21.9%  | 23.2%  | 24.5%  | 25.6%  | 26.6%  | 27.5%  | 28.4%  |
| <b>Premium Subscriber Units</b>     |        |        |        |        |        |        |        |        |        |        |        |        |
| Showtime                            | 12.3   | 13.9   | 14.9   | 17.4   | 21.2   | 23.5   | 25.2   | 26.4   | 27.2   | 27.9   | 28.4   | 28.7   |
| TMC/FLIX                            | 3.6    | 4.3    | 4.8    | 5.8    | 7.1    | 7.8    | 8.4    | 8.8    | 9.1    | 9.3    | 9.5    | 9.6    |
| HBO                                 | 22.4   | 22.9   | 24.1   | 24.7   | 26.3   | 27.8   | 29.3   | 30.9   | 32.2   | 33.4   | 34.5   | 35.0   |
| Cinemax                             | 10.0   | 10.0   | 10.5   | 11.0   | 10.7   | 10.8   | 11.4   | 11.8   | 12.2   | 12.5   | 12.7   | 12.9   |
| Starz                               | 4.9    | 6.7    | 8.8    | 10.2   | 11.5   | 13.0   | 14.4   | 15.8   | 16.9   | 17.9   | 18.9   | 19.7   |
| Encore                              | 10.2   | 10.4   | 12.7   | 13.7   | 16.3   | 18.2   | 19.9   | 21.5   | 22.9   | 24.2   | 25.4   | 26.5   |
| Aggregate Subscription Units        | 63.4   | 68.2   | 75.8   | 82.9   | 93.1   | 101.1  | 108.6  | 115.2  | 120.5  | 125.2  | 129.3  | 132.3  |
| % Change                            |        | 7.6%   | 11.1%  | 9.4%   | 12.3%  | 8.6%   | 7.5%   | 6.0%   | 4.7%   | 3.8%   | 3.3%   | 2.4%   |
| <b>Aggregate Unique Subscribers</b> |        |        |        |        |        |        |        |        |        |        |        |        |
| Showtime/TMC/FLIX                   | 12.3   | 13.9   | 14.9   | 17.4   | 21.2   | 23.5   | 25.2   | 26.4   | 27.2   | 27.9   | 28.4   | 28.7   |
| HBO/Cinemax                         | 23.4   | 23.9   | 25.2   | 25.8   | 27.3   | 28.8   | 30.5   | 32.1   | 33.4   | 34.7   | 35.8   | 36.3   |
| Starz/Encore                        | 10.2   | 10.4   | 12.7   | 13.7   | 16.3   | 18.2   | 19.9   | 21.5   | 22.9   | 24.2   | 25.4   | 26.5   |
| Duplicated Households               | (11.2) | (12.2) | (13.8) | (15.6) | (20.6) | (24.0) | (27.1) | (29.9) | (32.1) | (33.8) | (35.0) | (35.9) |
| Aggregate Unique Subscribers*       | 34.6   | 36.0   | 38.9   | 41.4   | 44.2   | 46.5   | 48.5   | 50.0   | 51.5   | 52.9   | 54.6   | 55.6   |
| Services/ Premium Subscriber        | 1.83   | 1.89   | 1.95   | 2.00   | 2.11   | 2.17   | 2.24   | 2.30   | 2.34   | 2.37   | 2.37   | 2.38   |
| Multichannel Penetration            | 50%    | 51%    | 55%    | 57%    | 55%    | 56%    | 57%    | 57%    | 58%    | 58%    | 59%    | 59%    |
| TV Penetration                      | 40%    | 41%    | 44%    | 45%    | 46%    | 47%    | 47%    | 48%    | 48%    | 49%    | 49%    | 50%    |
| HH Penetration                      | 38%    | 39%    | 42%    | 43%    | 43%    | 44%    | 45%    | 45%    | 46%    | 46%    | 47%    | 47%    |

\* Defined as a household that takes at least one premium service.

E= Morgan Stanley Research Estimates

Source: Company Data, Morgan Stanley Research

## Exhibit 56

## Premium Subscriber Analysis (continued)

| Industry Summary                    | 1996 | 1997 | 1998  | 1999  | 2000  | 2001  | 2002E | 2003E | 2004E | 2005E | 2006E | 2007E |
|-------------------------------------|------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Households                    | 90.6 | 92.6 | 92.9  | 96.3  | 101.7 | 104.7 | 108.0 | 110.7 | 112.8 | 114.6 | 116.3 | 117.8 |
| Total Television Households         | 86.1 | 88.0 | 88.3  | 91.5  | 96.6  | 99.5  | 102.6 | 105.2 | 107.2 | 108.9 | 110.5 | 112.0 |
| Total Multi-channel Households      | 68.9 | 70.4 | 70.6  | 73.2  | 79.7  | 83.1  | 85.7  | 87.8  | 89.5  | 90.9  | 92.3  | 93.5  |
| Digital Cable Households            | -    | -    | 1.5   | 4.9   | 8.8   | 14.7  | 19.6  | 24.1  | 27.9  | 31.1  | 34.1  | 36.8  |
| DBS Households                      | 4.2  | 6.3  | 8.7   | 11.5  | 14.8  | 17.5  | 19.7  | 21.4  | 22.6  | 23.7  | 24.6  | 25.3  |
| Total Digital Video HH              | 4.2  | 6.3  | 10.2  | 16.4  | 23.6  | 32.2  | 39.3  | 45.5  | 50.6  | 54.8  | 58.6  | 62.1  |
| % Multichannel Penetration          | 6.1% | 8.9% | 14.4% | 22.4% | 29.6% | 38.7% | 45.8% | 51.8% | 56.5% | 60.3% | 63.5% | 66.5% |
| Multichannel Households             | 68.9 | 70.4 | 70.6  | 73.2  | 79.7  | 83.1  | 85.7  | 87.8  | 89.5  | 90.9  | 92.3  | 93.5  |
| Premium Penetration                 | 92%  | 97%  | 107%  | 113%  | 117%  | 122%  | 127%  | 131%  | 135%  | 138%  | 140%  | 142%  |
| Total Premium Subscriptions         | 63.4 | 68.2 | 75.8  | 82.9  | 93.1  | 101.1 | 108.6 | 115.2 | 120.5 | 125.2 | 129.3 | 132.3 |
| Subscriptions / Premium Household   | 1.83 | 1.89 | 1.95  | 2.00  | 2.11  | 2.17  | 2.24  | 2.30  | 2.34  | 2.37  | 2.37  | 2.38  |
| Total Premium Households            | 34.6 | 36.0 | 38.9  | 41.4  | 44.2  | 46.5  | 48.5  | 50.0  | 51.5  | 52.9  | 54.6  | 55.6  |
| % Multichannel Penetration          | 50%  | 51%  | 55%   | 57%   | 55%   | 56%   | 57%   | 57%   | 58%   | 58%   | 59%   | 59%   |
| DBS Subscribers                     | 4.2  | 6.3  | 8.7   | 11.5  | 14.8  | 17.5  | 19.7  | 21.4  | 22.6  | 23.7  | 24.6  | 25.3  |
| Premium Penetration                 | 283% | 283% | 279%  | 272%  | 259%  | 251%  | 244%  | 238%  | 234%  | 231%  | 229%  | 227%  |
| DBS Premium Subscriptions           | 12.0 | 17.9 | 24.3  | 31.3  | 38.2  | 43.9  | 48.0  | 51.0  | 53.1  | 54.7  | 56.2  | 57.4  |
| % of Total Premium Subs             | 19%  | 26%  | 32%   | 38%   | 41%   | 43%   | 44%   | 44%   | 44%   | 44%   | 43%   | 43%   |
| Subscriptions / Premium Household   | 3.00 | 3.00 | 2.94  | 2.87  | 2.79  | 2.72  | 2.66  | 2.62  | 2.60  | 2.59  | 2.57  | 2.56  |
| Premium Households                  | 4.0  | 6.0  | 8.3   | 10.9  | 13.7  | 16.1  | 18.1  | 19.5  | 20.4  | 21.1  | 21.8  | 22.5  |
| % DBS Penetration                   | 95%  | 95%  | 95%   | 95%   | 93%   | 92%   | 92%   | 91%   | 90%   | 89%   | 89%   | 89%   |
| Digital Cable Subscribers           | -    | -    | 1.5   | 4.9   | 8.8   | 14.7  | 19.6  | 24.1  | 27.9  | 31.1  | 34.1  | 36.8  |
| Premium Penetration                 | 0%   | 0%   | 300%  | 258%  | 247%  | 237%  | 218%  | 210%  | 205%  | 202%  | 198%  | 193%  |
| Digital Cable Premium Subscriptions | -    | -    | 4.5   | 12.7  | 21.7  | 34.7  | 42.7  | 50.6  | 57.3  | 63.0  | 67.4  | 70.8  |
| % of Total Premium Subs             | 0%   | 0%   | 6%    | 15%   | 23%   | 34%   | 39%   | 44%   | 48%   | 50%   | 52%   | 54%   |
| Subscriptions / Premium Household   | 3.00 | 3.00 | 3.00  | 2.78  | 2.69  | 2.66  | 2.66  | 2.68  | 2.64  | 2.60  | 2.49  | 2.44  |
| Premium Households                  | -    | -    | 1.5   | 4.6   | 8.1   | 13.0  | 16.0  | 18.9  | 21.7  | 24.3  | 27.0  | 29.1  |
| % Digital Cable Penetration         | -    | -    | 100%  | 93%   | 92%   | 89%   | 82%   | 78%   | 78%   | 78%   | 79%   | 79%   |
| Analog Cable Subscribers            | 64.7 | 64.1 | 60.4  | 56.8  | 56.1  | 50.9  | 46.4  | 42.3  | 38.9  | 36.1  | 33.7  | 31.3  |
| Premium Penetration                 | 79%  | 78%  | 78%   | 69%   | 59%   | 44%   | 38%   | 32%   | 26%   | 21%   | 17%   | 13%   |
| Analog Premium Subscriptions        | 51.4 | 50.3 | 47.0  | 38.9  | 33.2  | 22.4  | 17.9  | 13.5  | 10.1  | 7.5   | 5.7   | 4.1   |
| % of Total Premium Subscriptions    | 81%  | 74%  | 62%   | 47%   | 36%   | 22%   | 16%   | 12%   | 8%    | 6%    | 4%    | 3%    |
| Subscriptions / Premium Household   | 1.68 | 1.67 | 1.61  | 1.50  | 1.48  | 1.29  | 1.24  | 1.16  | 1.08  | 1.00  | 1.00  | 1.00  |
| Premium Households                  | 30.6 | 30.1 | 29.2  | 25.9  | 22.5  | 17.4  | 14.4  | 11.7  | 9.4   | 7.5   | 5.7   | 4.1   |
| % Analog Cable Penetration          | 47%  | 47%  | 48%   | 46%   | 40%   | 34%   | 31%   | 28%   | 24%   | 21%   | 17%   | 13%   |
| Total Cable Subscribers             | 64.7 | 64.1 | 61.9  | 61.7  | 64.9  | 65.6  | 66.0  | 66.4  | 66.9  | 67.3  | 67.7  | 68.1  |
| Premium Penetration                 | 79%  | 78%  | 83%   | 84%   | 85%   | 87%   | 92%   | 97%   | 101%  | 105%  | 108%  | 110%  |
| Cable Premium Subscriptions         | 51.4 | 50.3 | 51.5  | 51.6  | 54.9  | 57.1  | 60.6  | 64.2  | 67.5  | 70.5  | 73.1  | 74.9  |
| Subscriptions / Premium Household   | 1.68 | 1.67 | 1.68  | 1.69  | 1.80  | 1.88  | 1.99  | 2.10  | 2.17  | 2.22  | 2.23  | 2.26  |
| Premium Households                  | 30.6 | 30.1 | 30.7  | 30.6  | 30.6  | 30.4  | 30.4  | 30.6  | 31.1  | 31.7  | 32.8  | 33.2  |
| Premium Subscription Breakdown      |      |      |       |       |       |       |       |       |       |       |       |       |
| % Digital (DBS & Digital Cable)     | 19%  | 26%  | 38%   | 53%   | 64%   | 78%   | 84%   | 88%   | 92%   | 94%   | 96%   | 97%   |
| % Analog                            | 81%  | 74%  | 62%   | 47%   | 36%   | 22%   | 16%   | 12%   | 8%    | 6%    | 4%    | 3%    |

E = Morgan Stanley Research Estimates

Source: Company Data, Morgan Stanley Research

### Operating Forecast & Competitive Analysis

We expect the premium networks to grow revenues 6.5–7.0% annually from 2002 to 2007. From the cable and DBS operators' perspective, this translates into 6.5–7.0% annual growth in premium programming costs. Our forecast assumes 4% annual growth in subscription units, coupled with 2.5% growth in revenue (programming costs for the operators) per subscription unit. Reflecting an increase in the number of premium services per household, we expect premium revenue (programming costs) per unique premium subscriber to increase 3–4% per year through 2007.

We believe long-term revenue growth could be further enhanced by the commercial deployment of subscription video on demand services. The addition of SVOD would likely increase revenue per subscriber growth by 200 basis points, which would boost annual premium channel revenue growth to approximately 8–9%.

Fixed-cost leverage should allow all three premium movie providers to increase EBITDA margins an average of 50–60 basis points per year from 2002 to 2007, supporting 8–9% annual EBITDA growth. While we expect programming costs to increase in line with revenues, we expect all three providers to exert fixed-cost leverage over marketing and SG&A costs. We believe the majority of the additional revenue growth afforded by SVOD services should all fall to the bottom line.

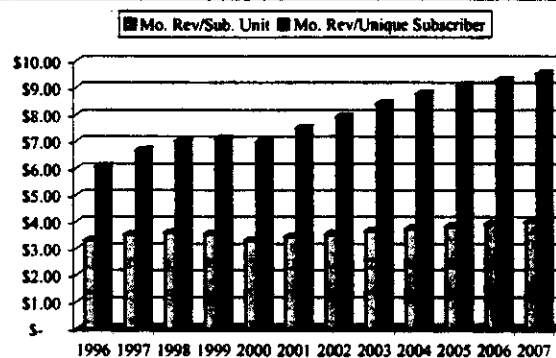
**Revenue analysis.** From 1996 to 2001, premium service revenues increased at a 10–11% CAGR, in line with premium subscription growth. To date, the premium movie services have sacrificed pricing power in an effort to grow their subscriber bases. This strategy makes sense to us, given the heightened fixed cost leverage within the industry. The primary operating costs within the industry — programming and SG&A — do not vary significantly with subscriber levels.

From 2002 to 2007, we expect premium industry revenue growth of 6.5–7.0%, roughly 200 basis points above subscriber growth. We expect Starz Encore to lead the group in terms of subscriber growth, since its low-cost multiplex offering is best positioned to capture a greater share of the incremental digital video subscribers. HBO, which has the largest subscriber base, should be able to exert the highest pricing power in the industry.

As illustrated in Exhibit 57, we expect revenue per subscription unit to remain relatively constant through 2007, while we expect revenue per unique subscriber to increase at a 2.5–3.0% CAGR. The discrepancy reflects an increase in subscribers taking digital packages that include multiple premium channels from each provider. In 2000 and 2001, both revenue per subscription unit and subscriber remained relatively constant. We believe this reflects the premium networks' decision to hold monthly wholesale fees stable to better enable the operators to boost digital video penetration through bundled discounting. Now that a critical base of digital subscribers has been established, we expect the premium networks to pass through moderate (2–3%) annual price increases in their digital packages. We believe our pricing assumptions are relatively conservative, since all of the premium networks have enhanced the breadth and depth of their digital packages.

Exhibit 57

### Premium Revenue Analysis



Source: Morgan Stanley Research

We have not reflected incremental revenue from subscription VOD services in our revenue forecast. We believe SVOD could increase annual revenue growth an additional 150 basis points to 8–9%. We estimate that the premium-service provider would garner 50% of the incremental retail revenue charged for SVOD, with the remainder captured by the cable operator.

**Operating cost analysis.** We estimate that programming costs, including acquired film rights and original programming, represent approximately 44–46% of total premium network revenue. We expect this ratio to remain relatively constant through 2007, based on our assumption that film acquisition costs increase 6–8% per year. Assuming that film acquisition costs increase in step with revenue growth, the primary source of operating leverage we see for the

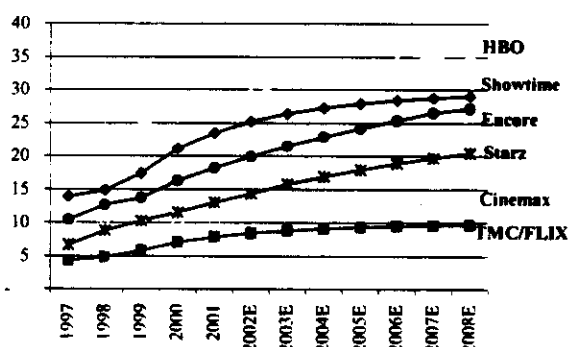
premium providers is in spreading SG&A costs across a greater revenue base. In addition, subscription VOD services should enhance profitability by providing incremental revenue without affecting film acquisition costs. (The majority of the premium providers have signed long-term output deals with studios that allow for SVOD distribution.)

We estimate that the premium movie networks spend approximately \$4–6 million per first-run feature film. In general, these costs are capitalized and amortized over a three-year period, with 70% of the costs expensed in the first year upon delivery of the film by the studio, 20% in the second year, and 10% in the third year.

**Competitive analysis of premium television networks.** In our view, a comparison of the three premium television networks could be a case study in Michael Porter's Competitive Strategies. Differentiation — through price, quality, or demographic focus — has allowed each of the networks to grow its respective distribution base while enhancing operating profitability.

Exhibit 58

## Premium Network Subscriber Forecast



Source: Morgan Stanley Research

**HBO: The differentiated industry leader.** In our view, HBO, the first premium movie service (introduced in 1972), has continued to reinvent itself to be the “premium” premium entertainment provider. We believe the company’s ability to differentiate itself from both other premium providers and broadcast and cable networks has afforded HBO a more inelastic demand curve than its competitors.

Over the past few years, HBO has transformed itself from a premium movie and sports entertainment provider to more of an outlet for original programming not available on

broadcast television. Since 1999, HBO has introduced *Sex in the City*, *The Sopranos*, *Band of Brothers*, and most recently, *Six Feet Under*. This strategy has paid off, as HBO has pushed its unique subscriber base up to 28 million in 2001 from 25 million in 1999.

While HBO’s operating margins are below that of Starz Encore, the company’s higher price point has led to an expansion in EBITDA margins from approximately 24% in 1999 to 30% in 2001. Furthermore, HBO’s value is enhanced through its ability to pass profits on to the Warner Brothers’ filmed entertainment division through long-term film-output deals. We believe there are inherent advantages in keeping the control of content in-house. HBO is guaranteed a constant flow of content without the pressure of contract renegotiations. In addition, HBO can coordinate its marketing efforts with Time Warner Cable and has increased control over the availability of its content on SVOD services. In many markets, AOL Time Warner captures 100% of retail revenue from a premium subscriber through the combination of Warner Brothers filmed entertainment, HBO, and Time Warner Cable.

**Starz Encore: The cost leader.** Starz markets itself as the highest-value premium movie service targeted to the digital-video market. The company holds a tight reign on its operating costs through headcount of only 500–600 employees (compared to 1,500–1,600 at HBO) and minimal marketing spending. As a result, Starz Encore boasts the highest EBITDA margins in the industry, at 36% in 2001, compared to 30% at HBO and 20% at Showtime. Reflective of its lean operating cost structure, Starz has demonstrated tremendous fixed-cost leverage over the past five years, growing EBITDA from a \$75 million deficit in 1996 to a positive \$313 million in 2001.

The company provides consumers with the value proposition of the widest selection of multiplex channels that offer a mix of new releases on its STARZ! platform and older releases across its Encore channels. The network does not develop original programming, but rather focuses on providing the widest array of new releases and classic films. In an effort to keep film acquisition costs lower than its competitors, Starz accepts a large percentage of its films in later release windows on a non-exclusive basis.

We estimate that on average, Starz Encore collects \$4.00–4.20 per month in programming revenue per unique subscribing household. In terms of revenue per subscription unit (i.e., Starz and Encore count as two subscription units),

we estimate that Starz Encore generates \$2.40–2.45 per unit, compared to \$5.20–5.25 for HBO and \$2.70–2.75 for Showtime.

On most cable and DBS systems, the Starz SuperPak of 12 digital premium channels is available for approximately \$12 per month. Since the cable and satellite operators' programming costs for Starz is significantly lower than this retail price, operators have an incentive to offer price discounts on Starz to boost digital penetration levels.

**Showtime: The focused differentiator.** We believe that for many years, Showtime fell in-between HBO and Starz Encore, as a lower-cost alternative to HBO with first-run movies complemented by original series, without the same value proposition as Starz Encore. Over the past few years, we believe Showtime has broken out of this mold by being a "focused differentiation" — a provider of premium content with a wide audience appeal, interspersed with programming tailored for specific target demographics.

The network's introduction of *Queer as Folk*, the first television series targeting the homosexual community, exemplifies Showtime's focus on a specific target audience. After introducing the series in 2000, Showtime's reported subscriber base increased 22% in 2000 and another 11% in

2001. In addition to alternative lifestyle programming, the network boasts other series targeted at specific demographics, including *Soul Food*, which centers on a multi-generational African American family, and *Resurrection Blvd.*, the first English-language US series featuring the Hispanic community. In addition, the *Showtime No Limits* late-night programming provides adult entertainment not available on basic cable.

As an operating business of Viacom, Showtime benefits from its relationship with Paramount Studios in a way similar to HBO and Warner Brothers. In short, the key is to keep as much of the revenue from the premium television window in the family, which makes the performance of the film studio significantly more important, in our view. If Paramount Studios produces strong box-office performers, it should receive marginally higher programming fees from sister Showtime Networks, which in turn should have superior programming to offer its subscribers. (A small portion of long-term output contracts varies, based on box office performance, subject to a cap and floor.) Since film studios are generally not profitable within the theatrical window, we believe the ability to monetize films within a sister premium movie service is essential to realizing a studio's investment in feature films.

**Exhibit 59**  
**Premium Network: Revenue Analysis**

| (in millions)                                | 1996           | 1997           | 1998           | 1999           | 2000           | 2001           | 2002           | 2003           | 2004           | 2005           | 2006           | 2007           |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Subscriber License Fees</b>               |                |                |                |                |                |                |                |                |                |                |                |                |
| HBO  | 1,724.2        | 1,853.0        | 1,998.4        | 2,093.0        | 2,093.0        | 2,369.8        | 2,604.1        | 2,851.1        | 3,037.0        | 3,210.1        | 3,375.1        | 3,516.7        |
| Starz Encore                                 | 199.0          | 355.0          | 532.0          | 640.0          | 733.0          | 863.0          | 965.7          | 1,071.0        | 1,181.9        | 1,281.4        | 1,377.0        | 1,471.6        |
| Showtime                                     | 602.3          | 679.1          | 748.9          | 798.6          | 876.4          | 963.8          | 1,051.9        | 1,137.1        | 1,210.6        | 1,271.9        | 1,327.7        | 1,374.3        |
| <b>Premium Network Total</b>                 | <b>2,525.5</b> | <b>2,887.1</b> | <b>3,279.3</b> | <b>3,531.6</b> | <b>3,702.4</b> | <b>4,196.6</b> | <b>4,621.7</b> | <b>5,059.3</b> | <b>5,429.5</b> | <b>5,763.4</b> | <b>6,079.7</b> | <b>6,362.6</b> |
| <b>% Change</b>                              |                | <b>14.3%</b>   | <b>13.6%</b>   | <b>7.7%</b>    | <b>4.8%</b>    | <b>13.3%</b>   | <b>10.1%</b>   | <b>9.5%</b>    | <b>7.3%</b>    | <b>6.1%</b>    | <b>5.3%</b>    | <b>4.7%</b>    |
| <b>Aggregate Subscription Units</b>          | <b>63.4</b>    | <b>68.2</b>    | <b>75.8</b>    | <b>82.9</b>    | <b>93.1</b>    | <b>101.1</b>   | <b>108.6</b>   | <b>115.2</b>   | <b>120.5</b>   | <b>125.2</b>   | <b>129.3</b>   | <b>132.3</b>   |
| <b>Monthly Revenue per Subscription Unit</b> | <b>\$3.32</b>  | <b>\$3.53</b>  | <b>\$3.61</b>  | <b>\$3.55</b>  | <b>\$3.32</b>  | <b>\$3.46</b>  | <b>\$3.55</b>  | <b>\$3.66</b>  | <b>\$3.75</b>  | <b>\$3.84</b>  | <b>\$3.92</b>  | <b>\$4.01</b>  |
| <b>Aggregate Unique Subscribers</b>          | <b>34.6</b>    | <b>36.0</b>    | <b>38.9</b>    | <b>41.4</b>    | <b>44.2</b>    | <b>46.5</b>    | <b>48.5</b>    | <b>50.0</b>    | <b>51.5</b>    | <b>52.9</b>    | <b>54.6</b>    | <b>55.6</b>    |
| <b>Monthly Revenue per Unique Subscriber</b> | <b>\$6.08</b>  | <b>\$6.67</b>  | <b>\$7.02</b>  | <b>\$7.11</b>  | <b>\$6.98</b>  | <b>\$7.51</b>  | <b>\$7.94</b>  | <b>\$8.43</b>  | <b>\$8.79</b>  | <b>\$9.08</b>  | <b>\$9.28</b>  | <b>\$9.53</b>  |
| <b>HBO</b>                                   |                |                |                |                |                |                |                |                |                |                |                |                |
| Subscription Revenue                         | 1,724.2        | 1,853.0        | 1,998.4        | 2,093.0        | 2,093.0        | 2,369.8        | 2,604.1        | 2,851.1        | 3,037.0        | 3,210.1        | 3,375.1        | 3,516.7        |
| Avg. Subscription Units                      | 32.4           | 32.7           | 33.8           | 35.2           | 36.4           | 37.8           | 39.6           | 41.7           | 43.6           | 45.1           | 46.5           | 47.5           |
| Monthly Revenue per Subscription Unit        | \$4.43         | \$4.73         | \$4.93         | \$4.96         | \$4.80         | \$5.23         | \$5.48         | \$5.70         | \$5.81         | \$5.93         | \$6.05         | \$6.17         |
| Avg. Unique Subscribing HH                   | 22.8           | 23.6           | 24.5           | 25.5           | 26.6           | 28.1           | 29.7           | 31.3           | 32.7           | 34.0           | 35.2           | 36.0           |
| Monthly Revenue per subscribing HH           | \$6.30         | \$6.53         | \$6.79         | \$6.84         | \$6.56         | \$7.03         | \$7.32         | \$7.60         | \$7.73         | \$7.86         | \$7.99         | \$8.13         |
| <b>Showtime</b>                              |                |                |                |                |                |                |                |                |                |                |                |                |
| Subscription Revenue                         | 602.3          | 679.1          | 748.9          | 798.6          | 876.4          | 963.8          | 1,051.9        | 1,137.1        | 1,210.6        | 1,271.9        | 1,327.7        | 1,374.3        |
| Subscription Units                           | 15.9           | 18.2           | 19.7           | 23.2           | 28.2           | 31.3           | 33.6           | 35.2           | 36.3           | 37.1           | 37.8           | 38.3           |
| Avg. Subscription Units                      | 15.4           | 17.1           | 19.0           | 21.5           | 25.7           | 29.8           | 32.5           | 34.4           | 35.7           | 36.7           | 37.5           | 38.0           |
| Affiliate Fee per Sub                        | \$3.27         | \$3.32         | \$3.29         | \$3.10         | \$2.84         | \$2.70         | \$2.70         | \$2.75         | \$2.82         | \$2.89         | \$2.95         | \$3.01         |
| Avg. Unique Subscribing HH                   | 12.0           | 13.1           | 14.4           | 16.1           | 19.3           | 22.3           | 24.4           | 25.8           | 26.8           | 27.5           | 28.1           | 28.5           |
| Revenue per subscribing HH                   | \$4.18         | \$4.31         | \$4.33         | \$4.12         | \$3.79         | \$3.60         | \$3.60         | \$3.67         | \$3.76         | \$3.85         | \$3.93         | \$4.01         |
| <b>Starz Encore</b>                          |                |                |                |                |                |                |                |                |                |                |                |                |
| Subscription Revenue                         | 199.0          | 355.0          | 532.0          | 640.0          | 733.0          | 863.0          | 965.7          | 1,071.0        | 1,181.9        | 1,281.4        | 1,377.0        | 1,471.6        |
| Subscription Units (Starz & Encore)          | 15.1           | 17.1           | 21.5           | 24.0           | 27.9           | 31.2           | 34.3           | 37.3           | 39.8           | 42.1           | 44.3           | 46.2           |
| Avg. Subscription Units (Starz & Encore)     | 13.0           | 16.1           | 19.3           | 22.7           | 25.9           | 29.6           | 32.8           | 35.8           | 38.6           | 41.0           | 43.2           | 45.2           |
| Affiliate Fee per Sub                        | \$1.28         | \$1.84         | \$2.30         | \$2.35         | \$2.36         | \$2.43         | \$2.46         | \$2.50         | \$2.55         | \$2.60         | \$2.66         | \$2.71         |
| Avg. Unique Subscribing HH                   | 9.0            | 10.3           | 11.6           | 13.2           | 15.0           | 17.3           | 19.1           | 20.7           | 22.2           | 23.6           | 24.8           | 26.0           |
| Revenue per subscribing HH                   | \$1.84         | \$2.87         | \$3.84         | \$4.04         | \$4.06         | \$4.17         | \$4.22         | \$4.31         | \$4.43         | \$4.53         | \$4.63         | \$4.72         |
| <b>Revenue per Subscription Unit</b>         | <b>1996</b>    | <b>1997</b>    | <b>1998</b>    | <b>1999</b>    | <b>2000</b>    | <b>2001</b>    | <b>2002</b>    | <b>2003</b>    | <b>2004</b>    | <b>2005</b>    | <b>2006</b>    | <b>2007</b>    |
| HBO  | \$4.43         | \$4.73         | \$4.93         | \$4.96         | \$4.80         | \$5.23         | \$5.48         | \$5.70         | \$5.81         | \$5.93         | \$6.05         | \$6.17         |
| Showtime                                     | \$3.27         | \$3.32         | \$3.29         | \$3.10         | \$2.84         | \$2.70         | \$2.70         | \$2.75         | \$2.82         | \$2.89         | \$2.95         | \$3.01         |
| Starz Encore                                 | \$1.28         | \$1.84         | \$2.30         | \$2.35         | \$2.36         | \$2.43         | \$2.46         | \$2.50         | \$2.55         | \$2.60         | \$2.66         | \$2.71         |
| <b>Average</b>                               | <b>\$2.99</b>  | <b>\$3.30</b>  | <b>\$3.51</b>  | <b>\$3.47</b>  | <b>\$3.33</b>  | <b>\$3.45</b>  | <b>\$3.54</b>  | <b>\$3.65</b>  | <b>\$3.73</b>  | <b>\$3.81</b>  | <b>\$3.88</b>  | <b>\$3.96</b>  |
| <b>Revenue per Subscriber</b>                |                |                |                |                |                |                |                |                |                |                |                |                |
| HBO  | \$6.30         | \$6.53         | \$6.79         | \$6.84         | \$6.56         | \$7.03         | \$7.32         | \$7.60         | \$7.73         | \$7.86         | \$7.99         | \$8.13         |
| Showtime                                     | \$4.18         | \$4.31         | \$4.33         | \$4.12         | \$3.79         | \$3.60         | \$3.60         | \$3.67         | \$3.76         | \$3.85         | \$3.93         | \$4.01         |
| Starz Encore                                 | \$1.84         | \$2.87         | \$3.84         | \$4.04         | \$4.06         | \$4.17         | \$4.22         | \$4.31         | \$4.43         | \$4.53         | \$4.63         | \$4.72         |
| <b>Average</b>                               | <b>\$4.11</b>  | <b>\$4.57</b>  | <b>\$4.99</b>  | <b>\$5.00</b>  | <b>\$4.81</b>  | <b>\$4.93</b>  | <b>\$5.05</b>  | <b>\$5.19</b>  | <b>\$5.31</b>  | <b>\$5.41</b>  | <b>\$5.52</b>  | <b>\$5.62</b>  |

*E = Morgan Stanley Research Estimates*

**Exhibit 60**  
**Premium Network: Operating Cost Analysis**

| (in millions)                           |        |        |       |       |         |         |         |         |         |         |         |         |
|---|--------|--------|-------|-------|---------|---------|---------|---------|---------|---------|---------|---------|
| Total Programming Costs                 | 1996   | 1997   | 1998  | 1999  | 2000    | 2001E   | 2002E   | 2003E   | 2004E   | 2005E   | 2006E   | 2007E   |
| Starz Encore                            | 193    | 261    | 306   | 333   | 362     | 420     | 463     | 506     | 548     | 589     | 631     | 673     |
| % of revenue                            | 97.2%  | 73.6%  | 57.5% | 52.0% | 49.4%   | 48.7%   | 48.0%   | 47.3%   | 46.3%   | 45.9%   | 45.8%   | 45.8%   |
| HBO                                     | 969.6  | 969.6  | 969.6 | 969.6 | 1,002.2 | 1,062.3 | 1,163.5 | 1,270.2 | 1,350.5 | 1,425.2 | 1,496.5 | 1,571.3 |
| % of revenue                            | 56.2%  | 52.3%  | 48.5% | 46.3% | 47.9%   | 44.8%   | 44.7%   | 44.5%   | 44.5%   | 44.4%   | 44.3%   | 44.7%   |
| Showtime                                | 220.9  | 193.0  | 283.9 | 337.5 | 379.1   | 419.2   | 444.3   | 466.8   | 488.8   | 512.0   | 536.1   | 561.4   |
| % of revenue                            | 36.7%  | 28.4%  | 37.9% | 42.3% | 43.3%   | 43.5%   | 42.2%   | 41.1%   | 40.4%   | 40.3%   | 40.4%   | 40.9%   |
| Mean                                    | 63.4%  | 51.4%  | 48.0% | 46.9% | 46.8%   | 45.7%   | 45.0%   | 44.3%   | 43.7%   | 43.5%   | 43.5%   | 43.8%   |
| Other Operating Costs as a % of Revenue |        |        |       |       |         |         |         |         |         |         |         |         |
| Starz Encore                            | 40.5%  | 34.3%  | 23.7% | 22.2% | 18.6%   | 15.0%   | 14.3%   | 13.8%   | 13.4%   | 13.2%   | 13.0%   | 12.9%   |
| HBO                                     | 37.4%  | 35.2%  | 32.2% | 32.1% | 29.6%   | 27.5%   | 25.4%   | 24.4%   | 24.1%   | 23.7%   | 23.5%   | 23.4%   |
| Showtime                                | 39.8%  | 37.9%  | 30.4% | 28.2% | 27.2%   | 26.1%   | 26.0%   | 25.7%   | 25.3%   | 25.0%   | 24.7%   | 24.5%   |
| Mean                                    | 39.2%  | 35.8%  | 28.8% | 27.5% | 25.1%   | 22.9%   | 21.9%   | 21.3%   | 20.9%   | 20.6%   | 20.4%   | 20.3%   |
| EBITDA                                  |        |        |       |       |         |         |         |         |         |         |         |         |
| Starz Encore                            | (75.0) | (28.0) | 100.0 | 165.0 | 235.0   | 313.0   | 364.5   | 417.2   | 476.1   | 524.3   | 567.2   | 608.7   |
| Margin %                                | -37.7% | -7.9%  | 18.8% | 25.8% | 32.1%   | 36.3%   | 37.7%   | 39.0%   | 40.3%   | 40.9%   | 41.2%   | 41.4%   |
| HBO                                     | 413.0  | 477.0  | 556.0 | 528.0 | 588.0   | 736.1   | 834.9   | 939.5   | 1,014.3 | 1,082.7 | 1,146.7 | 1,185.4 |
| Margin %                                | 21.5%  | 23.2%  | 25.6% | 24.3% | 26.2%   | 29.9%   | 31.0%   | 31.9%   | 32.4%   | 32.8%   | 33.1%   | 32.9%   |
| Showtime                                | 90.1   | 105.0  | 120.6 | 138.0 | 166.4   | 196.6   | 230.7   | 269.3   | 305.1   | 329.8   | 349.4   | 360.3   |
| Margin %                                | 12.9%  | 14.5%  | 16.1% | 17.3% | 19.0%   | 20.4%   | 21.9%   | 23.7%   | 25.2%   | 25.9%   | 26.3%   | 26.2%   |
| Aggregate EBITDA                        | 428.1  | 554.0  | 776.6 | 831.0 | 989.4   | 1,245.8 | 1,430.2 | 1,626.1 | 1,795.5 | 1,936.8 | 2,063.2 | 2,154.4 |
| Change %                                |        | 29.4%  | 40.2% | 7.0%  | 19.1%   | 25.9%   | 14.8%   | 13.7%   | 10.4%   | 7.9%    | 6.5%    | 4.4%    |
| Margin %                                | 17.0%  | 19.2%  | 23.7% | 23.5% | 26.7%   | 29.7%   | 30.9%   | 32.1%   | 33.1%   | 33.6%   | 33.9%   | 33.9%   |

E= Morgan Stanley Research Estimates

## Adelphia Communications (ADLAC, \$10, Overweight, Industry View: Attractive, \$25 Target)

On March 27 Adelphia disclosed the existence of \$2.284 billion of debt drawn down at the Rigas family holding company, Highland, that was also cross-collateralized by Adelphia assets. None of the historical balance sheets reported contingent liabilities for this debt. As discussed below, the disclosure in the 2000 10K debt footnote was, in our opinion, less than clear.

The question becomes, Does disappointment with the level of financial disclosure warrant the sale of the stock regardless of price? We believe that Adelphia, as constituted today, would be worth \$25 per share currently and perhaps as much as \$30 at the end of 2002 if the capital structure was not as highly leveraged. However, if the Highland debt and cable systems were collapsed into Adelphia, the ratio of total debt to concurrent EBITDA would be 8.3.

### The question becomes, Does disappointment with the level of financial disclosure warrant the sale of the stock regardless of price?

If Adelphia and Highland were to be combined, the company would almost certainly need to sell equity to de-lever. We believe that the maximum sustainable debt level would be 7.0 times 2003E EBITDA, approximately \$1.5–2.0 billion less than our current projection of \$15.5 billion at the end of 2003. The \$1.5–2.0 billion of proceeds would be used to meet 2002 and 2003 debt maturities.

We believe that the credibility discount on the stock serves to reduce our target multiple to under 13.0 times 2003E EBITDA. This implies a \$29–30 price target given our new 2002 ending debt expectation. The potential need for \$1.5–2.0 billion in equity justifies an additional 15–20% discount on the year-end 2002 fair market value per share, in our view. Thus, we believe that a reasonable value for the shares is \$25 in 12 months and \$20 today.

While we recognize the unique risks created by the new financial disclosure, we are not changing our rating from Overweight. However, we are reducing our price target to

\$25. The impact of a \$1.5–2.0 billion sale of equity would erode our estimate of intrinsic value by \$2–3 per share in the best case. We have assumed a larger discount as the market's ability to absorb the shares could create sustained trading weakness.

**While we recognize the unique risks created by the new financial disclosure, we are not changing our rating from Overweight. However, we are reducing our price target to \$25.**

From an operational perspective, 4Q01 results were in line with our forecast. In addition, the 2002 digital and data subscriber guidance was above our previous estimates. As a result, we are raising our estimates of digital and data additions for 2002. These increases are offset at the revenue and EBITDA line by lower basic subscriber growth. We are reiterating our 2002 revenue and EBITDA growth expectations of 12.5–13.0% and 12.5–13.0%, respectively.

**We are lowering our price target from \$35 to \$25 primarily to account for two issues.**

- First, we believe that the market will assign a management-credibility discount, and we apply this to our target multiple by reducing it to 12.8 times 2003E EBITDA. This compares to the 13.5–14.0 times 2003E EBITDA target multiple for the other U.S. cable stocks. We think it is reasonable to expect that the high level of debt leverage will restrict the funding for the rollout of new services.
- Second, a large equity overhang exists now that the available bank lines have been reduced to \$2.5 billion, and there is the risk that Highland will draw down additional funds. Even with \$2.5 billion available, the company requires external financing of \$1.2 billion in 2003 assuming the \$975 million convertible bond is put to the company. We assigned a 15% IPO discount, in essence, which further reduced our price target from \$29 to \$25.

**Disclosure of \$2.3 Billion in Recourse Debt at Highland**  
In its 4Q01 release, Adelphia stated that as of December 2001 the Rigas family investment company, Highland LP, had drawn down \$2.3 billion from credit lines that are guaranteed by Adelphia. While we were aware that Highland had the ability to draw down debt on three of its bank lines, we were not aware of the magnitude of the existing indebtedness and the use of these bank lines to finance purchases of Adelphia equity and convertible debt.

We believe that the disclosure of off-balance sheet indebtedness was not adequate. According to the 2000 10K: "Certain subsidiaries of Adelphia are co-borrowers with Managed Entities under facilities for borrowings of up to \$3.75 billion. Each of the co-borrowers is liable for all borrowings under the credit agreement, and may borrow up to the entire amount of the available credit under the facility. The lenders have no recourse against Adelphia other than against Adelphia's interest in such subsidiaries."

In addition, Adelphia did not report, in either the 2000 10K or the 10Qs in 2001, a specific contingent liability on its balance sheet or in its footnotes with respect to debt at Highland that was material and with recourse back to Adelphia. We assumed, incorrectly, that this nondisclosure implied that the level of debt at Highland drawn from bank lines with recourse to Adelphia was immaterial.

**Risk of Conflict of Interest and Increased Indebtedness**  
We believe that the family's use of cross-guaranteed bank lines to finance, among other things, the continued purchase of ADLAC common stock and convertible instruments may represent a conflict of interest between the Rigas family and the ADLAC shareholders. The increased overall leverage at Adelphia (including the Highland debt) and the reduction in credit available to fund Adelphia's free cash flow deficit are both negatives for Adelphia shareholders.

It was not stated whether the \$2.3 billion is secured by the common shares and the convertible debt of Adelphia owned by Highland. It is also not stated whether the funding for the \$400 million 3.25% convertible notes that the Rigas family purchased on January 21, 2002, was included in the \$2.3 billion balance. Finally, it was not stated whether the \$2.3 billion is pro forma for the remaining \$50 million in Series E Preferred and \$150 million in Class B shares that the Rigas family has committed to purchasing by April 2002.

It was stated that a portion of the debt was used to finance the security purchases by Highland. Therefore, we are assuming that the \$2.3 billion is secured with all of the securities of Adelphia held by Highland.

**Under the worst-case assumptions, the pro forma debt drawn down at Highland could be as high as \$2.9 billion.** This would imply that Adelphia really has less than \$2.0 billion available on a pro forma basis if the Rigas family uses the bank lines to finance these additional three transactions.

#### **Assets at Highland**

There are known assets at Highland that in aggregate can more than offset the \$2.5 billion in bank debt at the Highland level (\$2.3 billion plus another \$200 million Rigas family purchases of Class B and Series E Preferred). These assets include:

- 300,000 cable subscribers with approximately \$1.2–1.5 billion in value
- 58 million Class A and B common shares of Adelphia stock, worth about \$950 million.
- \$567 million in convertible debt that can be put back to Adelphia.

There are three borrowing groups under Adelphia that have Highland as a co-borrower. In essence, each facility has both Adelphia and Highland assets securing the debt, and both companies have access to the entire credit line.

#### **Financing Requirements**

The consolidated debt at the end of 2001 was \$14.7 billion. Excluding ABIZ (Adelphia Business Solutions) debt of \$1.4 billion, the debt drops to \$13.3 billion. The debt was reduced to \$11.5 billion by the common equity and convertible debt and preferred proceeds of \$1.75 billion. The company has a funding gap of \$1.35 billion in 2002, plus \$525 million in maturing debt.

The \$1.35 billion funding gap, \$525 million of maturing debt, and non-cash interest accruals should lead to year-end 2002 debt of \$13.3 billion. The bank availability of \$2.5 billion immediately after the January sale of common and preferred stock is reduced by the \$1.35 million operating deficit and \$525 million of maturing debt. The remaining availability at the end of 2002 is just over \$600 million.

We believe that in 2003 Adelphia will require \$300–350 million in additional operating-deficit financing based on our assumption of \$1.35 billion in capital spending. There is another \$571 of maturing nonconvertible debt in 2003. This excludes the \$975 million convertible note outstanding that holders can put back to Adelphia in May 2003. If the convertible note, which has a \$43 conversion price, is put back to Adelphia, its funding requirements reach \$1.3 billion in 2003. This assumes the full drawdown of its remaining \$600 million availability.

We believe there are four key points regarding financing requirements:

- We assume that the \$2.5 billion available will not be drawn down further by Highland. However, Highland has access to the funds, according to the bank agreements.
- Adelphia is not in violation of any of its leverage covenants despite the increased drawdown of bank debt. The leverage covenants at the bank lines, which average 5.5 times debt to EBITDA, treat debt outside of the bank loans as equity rather than debt.
- Given the company's existing leverage levels, all additional financing in 2004 and beyond will most likely need to be equity.
- It is impossible to forecast potential bank drawdowns by Highland, because it is a private company and does not publicly file its capital requirements and interest payments.

Because the lenders view the borrowing groups as isolated, independent entities, there are no immediate requirements for Highland to reduce its debt. However, we believe that the lower credit availability than we had expected implies that the company will require an equity infusion or an asset sale in the next 12–18 months.

**Possible Restructuring and the Effect on ADLAC Stock**  
We believe that two potential restructurings are of concern to investors.

- **Plan A:** collapsing Highland into Adelphia, including cancellation of the Rigas equity at Highland but the addition of the drawn debt at Highland onto Adelphia's balance sheet.

- **Plan B:** collapsing Highland into Adelphia but liquidating some portion of the Rigas equity at the Highland level to bring the leverage to a reasonable level.
- **Plan C:** collapsing Highland and then selling the company

**Plan A:** Plan A would increase Adelphia's overall 2002E debt/EBITDA leverage to 8.3 times and 7.6 times 2003E EBITDA. It would increase the debt by \$1.7 billion, add EBITDA of \$100 million from the Highland cable subscribers, and add \$50 million of EBITDA from other assets (principally real estate). The \$567 million in convertible debt would not be incremental, as it is a liability for Adelphia already.

However, because Plan A includes a net reduction of 58 million shares of stock, the collapse of Adelphia would actually increase the intrinsic value of the stock from \$29 to \$32. In essence, the higher debt is more than offset by a reduction in shares outstanding.

We believe that this strategy will not be pursued, for two reasons. First, 8.3 times leverage would not be accepted by the equity markets, in our opinion. Second, the Rigas family would lose control of its shares and Adelphia. Without a massive funding crisis, which we believe is at least 12–18 months away, we see no incentive for the family to pursue this strategy.

**Plan B:** The more probable situation is that the company collapses Highland and Adelphia, but the Rigases sell their 25 million Class A shares and 300,000 basic subscribers. We assume approximately \$400 million in proceeds from the equity, \$1.2 billion for the subscribers (12 times EBITDA), and the sale of the \$567 million of convertible debt for approximately \$300 million. This implies that the Rigas family would not give up their voting control of the company and would retain \$300–500 million in debt with the 32 million B shares as an asset.

The major risk in this strategy is that the Rigas family could ask for the Highland cable systems to be acquired by Adelphia for as much as \$1.5–1.8 billion. We believe that from a corporate governance perspective, the family has the ability to sell the systems to Adelphia at a multiple that would be dilutive to Adelphia shareholders. There is a lack of internal controls at the board level, we believe, leading to possible conflicts of interest.

**Plan C:** We believe that the private market value of the Adelphia cable systems would be at least \$4,000 per subscriber, or approximately \$27 per share, including the potential acquirer's assumption of \$2.3 billion debt beyond the \$14.7 billion in consolidated debt at year-end. The risk is that the company, including its balance-sheet and off-balance-sheet debt, would remain overlevered for any publicly traded cable operator.

#### Changes to our Forecast

We reiterate our 2002 revenue and EBITDA forecast calling for 12.5–13.0% and 12.0–12.5% growth, respectively. This is in line with management's guidance of 12–13% revenue and EBITDA growth in 2002. Adelphia's 2002 guidance of 820,000 digital and 400,000 data adds indicates that the company is poised to exceed our previous expectations for new RGU additions in 2002. As a result, we are making the following adjustments to our 2002 operating forecast:

- We are raising our 2002 digital additions forecast from 540,000 to 820,000. This revised forecast implies additions are down 15% from 2001 adds. Digital video should contribute 30% of 2002 revenue growth.
- We are raising our 2002 data-additions forecast from 340,000 to 410,000. Adelphia expects 90% of its footprint to be activated for high-speed data service by 2002. We expect weekly additions to climb throughout the year as the data product is sold into additional markets. We expect high-speed data to provide 30% of 2002 revenue growth.
- We are reducing our forecast of basic subscriber growth from 0.8% to 0.5%. We expect the lost basic revenue to be made up by higher digital and data revenue growth.

#### 4Q01 Results

Adelphia's 4Q01 results were in line with our expectations. Cable revenue increased 14.5% in 4Q01, to \$809 million, in line with our estimate. Core video revenue (including basic,

premium, and digital video revenue) growth of 15.4% was partially offset by a decline in PPV revenue and analog set-top converter rental fees. Within the video revenue figure, weaker-than-expected basic subscriber growth was offset by higher-than-expected digital additions. We believe that this reflects the loss of basic subscribers to DBS but the retention of higher-EBITDA subscribers through successful marketing of Adelphia's digital product.

Digital subscribers reached 1.88 million in the quarter, approximately 24,000 more than we expected. Data subscribers reached 377,510, about 27,000 below our forecast. We attribute the shortfall in data subscribers not to a lack in demand but rather to a more significant impact from the @Home systems in Los Angeles in 4Q01. We expect Adelphia to aggressively roll out its data product in new markets throughout 2002, and we look for weekly data additions to increase throughout the year.

Cable EBITDA increased 15.4%, to \$372 million, in line with our estimate. EBITDA margins increased by 30 basis points in the quarter, reflecting a 13% decline in marketing expenses and 2% growth in G&A costs. Programming costs increased 18% in the quarter, slightly below our estimate. The growth in programming expenses stems from increased digital penetration.

We remain encouraged by Adelphia's ability to roll out its digital and data products while keeping a tight rein on marketing and G&A costs. Management indicated that it believes it can keep marketing expenses at the 4Q01 level of 3.5% of revenue. Adelphia's marketing controls are partly related to the company's price discounting on its data product to drive penetration.

Similar to other operators, Adelphia offers new data subscribers free installation and three months of data service for \$19.95; after that, the monthly rate increases to \$43. We support this strategy based on the fact that data churn has been minimal following the three-month discount period.

Exhibit 61  
Adelphia Communications  
Broadband Cable Drivers

| Dollars in Millions                    | Pro Forma |           | 2002      | 1Q01      | 2Q01      | 3Q01      | 4Q01      | 1Q02E     | 2Q02E     | 3Q02E     | 4Q02E     |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|  | 2000      | 2001      |           |           |           |           |           |           |           |           |           |
| <b>Broadband Subscribers</b>           |           |           |           |           |           |           |           |           |           |           |           |
| Basic                                  | 5,794,790 | 5,818,253 | 5,834,399 | 5,723,315 | 5,672,225 | 5,693,835 | 5,816,253 | 5,838,711 | 5,823,326 | 5,825,041 | 5,834,399 |
| Pro Forma Basic Growth %               | 1.3%      | 0.3%      | 0.5%      | 1.5%      | 1.0%      | 0.8%      | 0.5%      | 0.5%      | 0.5%      | 0.5%      | 0.5%      |
| Basic ARPU                             | \$30.24   | \$31.90   | \$33.77   | \$30.80   | \$31.95   | \$32.04   | \$32.47   | \$32.47   | \$33.77   | \$34.42   | \$34.42   |
| Programs: Costs as % of Analog Rev.    | 25.9%     | 27.2%     | 29.0%     | 27.3%     | 27.8%     | 27.7%     | 27.5%     | 28.7%     | 29.1%     | 29.1%     | 29.1%     |
| Programming Costs per sub % Change     | 9.1%      | 9.1%      | 10.6%     | 8.5%      | 12.9%     | 12.3%     | 7.0%      | 9.2%      | 9.7%      | 11.6%     | 11.8%     |
| <b>Digital Video Subscribers</b>       |           |           |           |           |           |           |           |           |           |           |           |
| Digital Video Subscribers              | 904,263   | 1,879,044 | 2,698,261 | 1,347,197 | 1,983,413 | 1,682,371 | 1,879,044 | 2,204,044 | 2,347,044 | 2,609,544 | 2,698,261 |
| Digital Weekly Additions               | 12,891    | 18,746    | 15,754    | 26,380    | 19,709    | 15,766    | 15,129    | 25,000    | 11,000    | 12,500    | 14,517    |
| Digital ARPU                           | \$7.30    | \$11.72   | \$11.58   | \$11.33   | \$11.22   | \$11.15   | \$11.15   | \$11.25   | \$11.25   | \$11.50   | \$11.50   |
| Digital Penetration                    | 15.6%     | 32.3%     | 46.2%     | 21.8%     | 26.5%     | 29.6%     | 32.3%     | 37.9%     | 40.3%     | 43.1%     | 46.2%     |
| Digital Prog. Costs as % of Dig. Rev.  | 19.3%     | 19.6%     | 22.8%     | 0.0%      | 19.4%     | 19.6%     | 19.7%     | 22.0%     | 23.0%     | 23.0%     | 23.0%     |
| <b>Cable Modem Subscribers</b>         |           |           |           |           |           |           |           |           |           |           |           |
| Cable Modem Subscribers                | 148,504   | 377,510   | 787,010   | 196,941   | 243,185   | 315,104   | 377,510   | 475,010   | 599,510   | 663,510   | 787,010   |
| Cable Modem Weekly Additions           | 2,130     | 4,400     | 7,880     | 3,730     | 3,560     | 5,530     | 4,800     | 7,500     | 6,500     | 8,000     | 9,500     |
| Cable Modem ARPU                       | \$34.02   | \$26.37   | \$31.10   | \$26.28   | \$27.77   | \$26.78   | \$27.75   | \$29.77   | \$30.23   | \$30.78   | \$32.76   |
| Cable Modem Penetration                | 2.6%      | 6.5%      | 13.5%     | 3.4%      | 4.3%      | 5.5%      | 6.5%      | 8.2%      | 9.6%      | 11.4%     | 13.5%     |
| Affiliate Fee as % of HSD service rev. | 17.6%     | 19.7%     | 21.6%     | 19.8%     | 19.4%     | 19.8%     | 19.8%     | 21.2%     | 21.7%     | 21.7%     | 21.7%     |
| <b>Fixed Costs (1)</b>                 |           |           |           |           |           |           |           |           |           |           |           |
| Fixed Costs (\$)                       | \$810.8   | \$869.4   | \$935.3   | \$202.5   | \$214.4   | \$208.6   | \$221.3   | \$222.1   | \$231.0   | \$233.2   | \$249.0   |
| Fixed Costs (% Change)                 | -12.9%    | 7.2%      | 7.6%      | 22.7%     | 26.3%     | 25.0%     | 9.8%      | 9.7%      | 7.8%      | 11.8%     | 12.5%     |
| <b>Broadband (Incl. Telephony)</b>     |           |           |           |           |           |           |           |           |           |           |           |
| Revenue Growth %                       | 7.5%      | 11.8%     | 12.9%     | 24.6%     | 26.9%     | 23.5%     | 18.1%     | 0.7%      | 0.0%      | 2.2%      | -0.5%     |
| EBITDA Growth %                        | 13.9%     | 11.8%     | 12.4%     | 18.3%     | 25.8%     | 27.7%     | 28.9%     | 24.3%     | 19.3%     | 19.0%     | 20.1%     |
| EBITDA Margin %                        | 46.0%     | 46.0%     | 45.8%     | 37.0%     | 38.3%     | 39.7%     | 37.7%     | 45.6%     | 45.7%     | 46.3%     | 45.4%     |
| <b>Broadband (Excl. Telephony)</b>     |           |           |           |           |           |           |           |           |           |           |           |
| Revenue Growth %                       | 7.3%      | 11.3%     | 12.8%     | 20.6%     | 24.4%     | 23.3%     | 16.3%     | 15.0%     | 14.1%     | 16.4%     | 15.9%     |
| EBITDA Growth %                        | 11.9%     | 11.0%     | 12.3%     | 16.3%     | 18.4%     | 18.9%     | 19.4%     | 15.5%     | 15.3%     | 16.3%     | 14.5%     |
| EBITDA Margin %                        | 46.1%     | 46.0%     | 45.8%     | 45.5%     | 45.3%     | 46.4%     | 46.0%     | 45.7%     | 45.7%     | 46.3%     | 45.5%     |

(1) G&A, marketing and plant operations for both cable and residential telephony operations

E = Morgan Stanley Research Estimates

## Exhibit 62

**Adelphia Communications  
Estimated 2002 Fair Market Value**

| Asset Description   | Excluding Highland  |                         |                                       |                                  | Highland<br>Adjustments | With Highland<br>Total Adelphia<br>Communications |
|---|---------------------|-------------------------|---------------------------------------|----------------------------------|-------------------------|---|
|   | Cable<br>Operations | Commercial<br>Telephony | Other<br>Liabilities &<br>Investments | Total Adelphia<br>Communications |                         |   |
| Core Cable Television Operations                            | \$21,113.8          |                         |                                       | \$21,113.8                       | \$1,200.0               | \$22,313.8  |
| Telephony   | 2,235.3             |                         |                                       | 2,235.3                          |                         | 2,235.3   |
| Commercial Telephony  |                     | 146.2                   |                                       | 146.2                            |                         | 146.2   |
| Other Investments   |                     |                         |                                       |                                  |                         |   |
| Empire Sports   |                     |                         | 55.0                                  | 55.0                             |                         | 55.0  |
| Other Investments   |                     |                         | 100.0                                 | 100.0                            |                         | 100.0   |
| <b>Total Estimated Asset Value</b>                          | <b>\$23,349.2</b>   | <b>\$146.2</b>          | <b>\$155.0</b>                        | <b>\$23,650.4</b>                | <b>\$1,200.0</b>        | <b>\$24,850.4</b>                                 |
| <i>Less:</i>  |                     |                         |                                       |                                  |                         |   |
| Debt  | 13,257.0            | 0.0                     |                                       | 13,257.0                         | 2,284.0                 | 15,541.0  |
| 3.25% Convertible Subordinated Notes due 2021 @ \$43.76     | 0.0                 |                         |                                       | 0.0                              | (400.0)                 | (400.0)   |
| 6% Convertible Notes due 2006 @ \$55.50                     | 0.0                 |                         |                                       | 0.0                              | (167.4)                 | (167.4)   |
| <b>Net Debt</b>   | <b>13,257.0</b>     |                         |                                       | <b>13,257.0</b>                  | <b>1,716.6</b>          | <b>14,973.6</b>                                   |
| Preferred Stock   | 1,573.5             |                         |                                       | 1,573.5                          | 0.0                     | 1,573.5   |
| Series D 5.5% Convertible Pfd. @ \$81.45                    | 0.0                 |                         |                                       | 0.0                              |                         | 0.0   |
| Series E 7.5% Mandatory Convertible Pfd. due 2004 @ \$25.08 | (350.0)             |                         |                                       | (350.0)                          |                         | (350.0)   |
| Series F 7.5% Mandatory Convertible Pfd due 2005 @ \$29.99  | 0.0                 |                         |                                       | 0.0                              |                         | 0.0   |
| <b>Net Preferred Stock</b>                                  | <b>1,223.5</b>      | <b>0.0</b>              | <b>0.0</b>                            | <b>1,223.5</b>                   | <b>0.0</b>              | <b>1,223.5</b>                                    |
| Contingent Liability - Adelphia Business Solutions          |                     | 500.0                   | 0.0                                   | 500.0                            |                         | 500.0   |
| Minority Interest - Los Angeles JV                          | 642.0               |                         |                                       | 642.0                            |                         | 642.0   |
| Minority Interest - Western NY JV                           | 310.9               |                         |                                       | 310.9                            |                         | 310.9   |
| Minority Interest - San Juan JV                             | 239.2               |                         |                                       | 239.2                            |                         | 239.2   |
| <i>Plus:</i>  |                     |                         |                                       |                                  |                         |   |
| Cash  |                     |                         | 157.4                                 | 157.4                            |                         | 157.4   |
| Cash from Stock Options                                     |                     |                         | 21.7                                  | 21.7                             |                         | 21.7  |
| <b>Total Fair Market Value</b>                              | <b>\$7,676.7</b>    | <b>(\$353.8)</b>        | <b>\$334.1</b>                        | <b>\$7,657.0</b>                 | <b>(\$516.6)</b>        | <b>\$7,140.4</b>                                  |
| Class A Shares Outstanding                                  | 231.7               | 231.7                   | 231.7                                 | 231.7                            | (25.6)                  | 206.1   |
| Class B Shares Outstanding                                  | 32.7                | 32.7                    | 32.7                                  | 32.7                             | (32.6)                  | 0.1   |
| 3.25% Convertible Subordinated Notes due 2021 @ \$43.76     | 0.0                 | 0.0                     | 0.0                                   | 0.0                              |                         | 0.0   |
| 6% Convertible Notes due 2006 @ \$55.50                     | 0.0                 | 0.0                     | 0.0                                   | 0.0                              |                         | 0.0   |
| Series D 5.5% Convertible Pfd. @ \$81.45                    | 0.0                 | 0.0                     | 0.0                                   | 0.0                              |                         | 0.0   |
| Series E 7.5% Mandatory Convertible Pfd. due 2004 @ \$25.08 | 14.0                | 14.0                    | 14.0                                  | 14.0                             | (2.0)                   | 12.0  |
| Series F 7.5% Mandatory Convertible Pfd due 2005 @ \$29.99  | 0.0                 | 0.0                     | 0.0                                   | 0.0                              |                         | 0.0   |
| Stock Options   | 0.5                 | 0.5                     | 0.5                                   | 0.5                              |                         | 0.5   |
| <b>Total Adelphia Adjusted Comm. Shares Outstanding</b>     | <b>278.775</b>      | <b>278.775</b>          | <b>278.775</b>                        | <b>278.775</b>                   | <b>(60.1)</b>           | <b>218.6</b>                                      |
| <b>Total Fair Market Value Per Share</b>                    | <b>\$27.54</b>      | <b>(\$1.27)</b>         | <b>\$1.20</b>                         | <b>\$27.47</b>                   |                         | <b>\$32.66</b>                                    |
| Forced Equity Event Discount (15%)                          |                     |                         |                                       | <b>(\$4.12)</b>                  |                         |   |
| <b>2002 Price Target</b>                                    |                     |                         |                                       | <b>\$23.35</b>                   |                         |   |
| <i>Supplemental Valuation Data</i>                          |                     |                         |                                       |                                  |                         |   |
| Estimated Asset Value                                       | \$23,349.2          | \$146.2                 |                                       | \$23,495.4                       | \$1,200.0               | \$24,695.4  |
| 2002E EBITDA  | \$1,635.4           | 12.6                    |                                       | \$1,648.0                        | \$150.0                 | \$1,798.0   |
| Est. Asset Value / Est. EBITDA                              | 14.3x               | 11.6x                   |                                       | 14.3x                            |                         | 13.7x   |
| 2003E Cable/Telephony EBITDA                                | \$1,843.2           | \$13.2                  |                                       | \$1,856.4                        | \$169.0                 | \$2,025.3   |
| Est. Asset Value / 2003E EBITDA                             | 12.7x               | 11.1x                   |                                       | 12.7x                            |                         | 12.2x   |
| 2002E Basic Subscribers                                     | 5,836,399           |                         |                                       |                                  | 300,000                 | 6,136,399   |
| Est. Asset Value per Basic Subscriber                       | \$4.001             |                         |                                       |                                  |                         | \$4.024   |

E = Morgan Stanley Research Estimates

Exhibit 83

**Adelphia Communications  
Current Trading Multiples***(In Million Except Per Share Data)*

| 04/03/02                                     | Current Price |            | Including Highland |            |            |
|--|---------------|------------|--------------------|------------|------------|
|  | 2002E         | 2003E      | Adjustments        | 2002E      | 2003E      |
| Class A Common Stock - Shares Outstanding    | 232,830       | 233,992    | (25,600)           | 207,230    | 208,392    |
| Adelphia - Stock Price                       | \$10.00       | \$10.00    | 10.00              | 10.00      | 10.00      |
| Class B Common Stock - Shares Outstanding    | 32,681        | 32,844     | (32,555)           | 0.125      | 0.289      |
| Adelphia - Stock Price                       | \$10.00       | \$10.00    | 10.00              | 10.00      | 10.00      |
| Total Equity Market Capitalization           | \$2,655.1     | \$2,668.4  | (\$581.6)          | \$2,073.6  | \$2,086.8  |
| Plus:  |               |            |                    |            |            |
| Debt   | 13,257.0      | 13,905.2   | 2,284.0            | 15,541.0   | 16,189.2   |
| Contingent Liability                         | 500.0         | 500.0      | 0.0                | 500.0      | 500.0      |
| Convertible Debt                             | 0.0           | 0.0        | (567.4)            | (567.4)    | (567.4)    |
| Net Debt                                     | 13,757.0      | 14,405.2   | 1,716.6            | 15,473.6   | 16,121.8   |
| Preferred Stock                              | 1,573.5       | 1,573.5    | 0.0                | 1,573.5    | 1,573.5    |
| Minority Interests                           | 1,192.0       | 1,192.0    | 0.0                | 1,192.0    | 1,192.0    |
| Less:  |               |            |                    |            |            |
| Cash   | 157.4         | 157.4      | 0.0                | 157.4      | 157.4      |
| Cash from Stock Options                      | 21.7          | 21.7       | 0.0                | 21.7       | 21.7       |
| Other Investments                            |               |            |                    |            |            |
| ABIZ   | 0.0           | 0.0        | 0.0                | 0.0        | 0.0        |
| UnitedGlobalCom (2.394 mm Share Equivalents) | 0.0           | 0.0        | 0.0                | 0.0        | 0.0        |
| @Home (5.260 mm warrant)                     | 0.0           | 0.0        | 0.0                | 0.0        | 0.0        |
| International Cable                          | 0.0           | 0.0        | 0.0                | 0.0        | 0.0        |
| Empire Sports                                | 55.0          | 55.0       | 0.0                | 55.0       | 55.0       |
| Other Investments                            | 100.0         | 100.0      | 0.0                | 100.0      | 100.0      |
| Total Other Assets                           | 155.0         | 155.0      | 0.0                | 155.0      | 155.0      |
| Net Market Capitalization                    | \$18,843.5    | \$19,504.9 | \$1,135.0          | \$19,978.5 | \$20,640.0 |
| Concurrent EBITDA                            | \$1,648.0     | \$1,856.4  | \$150.0            | \$1,798.0  | \$2,006.4  |
| Net Market Cap. / EBITDA                     | 11.4x         | 10.5x      |                    | 11.1x      | 10.3x      |
| Next Fiscal Year Est. EBITDA                 | \$1,856.4     | \$2,075.7  | \$169.0            | \$2,025.3  | \$2,244.7  |
| Net Market Cap. / EBITDA                     | 10.2x         | 9.4x       |                    | 9.9x       | 9.2x       |
| Next Fiscal Year Est. EBITA                  | \$684.1       | \$826.0    | \$142.0            | \$826.1    | \$967.9    |
| Net Market Cap. / EBITDA                     | 27.5x         | 23.6x      |                    | 24.2x      | 21.3x      |

E= Morgan Stanley Research

Broadband Cable Television - April 5, 2002

Please see the important disclosures at the end of this report.

## Exhibit 64

**Adelphia Communications  
Consolidated Annual Income Statement**

(\$ Millions, except per-share data)

|  | 2000      | 2001      | Pro Forma |           | 2002E     | 2003E     | 2004E     | 2005E     | 2006E     |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|  |           |           | 2000      | 2001      |           |           |           |           |           |
| Revenues   | \$2,909.4 | \$3,580.1 | \$2,854.7 | \$3,190.3 | \$3,601.9 | \$4,117.2 | \$4,693.7 | \$5,357.3 | \$6,072.0 |
| Operating Expenses                                   | 1,817.7   | 2,214.3   | 1,542.8   | 1,724.1   | 1,953.9   | 2,260.8   | 2,617.9   | 3,061.5   | 3,477.1   |
| EBITDA   | \$1,091.7 | \$1,365.8 | \$1,311.9 | \$1,466.2 | \$1,648.0 | \$1,856.4 | \$2,075.7 | \$2,295.7 | \$2,594.9 |
| Operating Cash Flow Margin                           | 37.5%     | 38.1%     | 46.0%     | 46.0%     | 45.8%     | 45.1%     | 44.2%     | 42.9%     | 42.7%     |
| Depreciation   | 459.1     | 804.7     | 459.1     | 804.7     | 963.9     | 1,030.4   | 1,043.2   | 1,053.8   | 1,063.5   |
| EBITA  | 632.6     | 561.1     | 852.8     | 661.6     | 684.1     | 826.0     | 1,032.5   | 1,242.0   | 1,531.4   |
| Amortization   | 408.8     | 482.4     | 408.8     | 482.4     | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       |
| EBIT   | 223.81    | 78.8      | 444.0     | 179.2     | 684.1     | 826.0     | 1,032.5   | 1,242.0   | 1,531.4   |
| Cash Interest Expense                                | 819.3     | 1,068.2   | 823.1     | 991.4     | 893.2     | 960.1     | 1,033.7   | 1,057.9   | 1,011.6   |
| Non-cash Interest Expense                            | 103.5     | 104.6     | 91.6      | 104.6     | 65.0      | 32.7      | 35.8      | 39.1      | 42.7      |
| Operating Profit after Interest                      | (699.1)   | (1,094.0) | (470.7)   | (916.8)   | (274.1)   | (166.9)   | (37.0)    | 144.9     | 477.1     |
| Interest Income and Other                            | 56.4      | 566.0     | 47.4      | 144.8     | 6.3       | 6.3       | 6.3       | 6.3       | 6.3       |
| Pretax Profit Before Equity Interest                 | (\$642.6) | (\$528.0) | (\$423.3) | (\$772.0) | (\$267.8) | (\$160.6) | (\$30.7)  | \$151.2   | \$483.4   |
| Income (Loss) from Equity Interests                  | (28.3)    | (1.8)     | (68.4)    | (28.3)    | (1.8)     | (1.8)     | (1.8)     | (1.8)     | (1.8)     |
| Income/(Loss) Before Taxes                           | (670.9)   | (529.8)   | (491.6)   | (800.3)   | (269.6)   | (162.4)   | (32.5)    | 149.4     | 481.6     |
| Deferred Taxes                                       | (138.7)   | (111.9)   | (31.2)    | (156.8)   | (234.1)   | (195.5)   | (148.7)   | (83.2)    | 18.2      |
| Current Taxes  | (18.9)    | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       | 18.2      |
| Income (Loss) Before Extra. Items                    | (513.3)   | (417.9)   | (460.4)   | (643.5)   | (33.5)    | 33.1      | 116.2     | 232.6     | 445.2     |
| Extraordinary Items (After Taxes)                    | 0.0       | (5.5)     | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       |
| Preferred Dividends                                  | (91.1)    | (91.1)    | (35.1)    | (91.1)    | (94.1)    | (114.7)   | (101.6)   | (69.7)    | (50.9)    |
| Net Income/(Loss)                                    | (604.4)   | (514.5)   | (495.5)   | (734.6)   | (129.6)   | (81.6)    | 14.7      | 163.0     | 394.3     |
| Average Basic Shares Outstanding                     | 135.5     | 177.2     | 135.5     | 177.2     | 261.8     | 290.7     | 291.9     | 293.0     | 294.1     |
| Reported Basic EPS                                   | (\$4.46)  | (\$2.87)  | (\$3.66)  | (\$4.15)  | (\$0.49)  | (\$0.28)  | \$0.05    | \$0.56    | \$1.34    |
| Average Fully Diluted Shares Outstanding             | 142.4     | 210.0     | 135.5     | 177.2     | 261.8     | 290.7     | 346.0     | 347.4     | 348.7     |
| Reported Fully Diluted EPS                           | (\$4.46)  | (\$2.87)  | (\$3.66)  | (\$4.15)  | (\$0.49)  | (\$0.28)  | \$0.04    | \$0.47    | \$1.13    |
| Less: Extraordinary and Nonrecurring Items per Share | (\$0.35)  | \$1.16    | \$0.00    | \$0.00    | \$0.00    | \$0.00    | \$0.00    | \$0.00    | \$0.00    |
| Adjusted Fully Diluted EPS                           | (\$4.11)  | (\$4.03)  | (\$3.66)  | (\$4.15)  | (\$0.49)  | (\$0.28)  | \$0.04    | \$0.47    | \$1.13    |
| Plus: Amortization per Share                         | \$2.87    | \$2.30    | \$3.02    | \$2.72    | \$0.00    | \$0.00    | \$0.00    | \$0.00    | \$0.00    |
| Less: Equity Income / (Losses) from Affiliates       | (\$0.20)  | (\$0.01)  | (\$0.50)  | (\$0.16)  | (\$0.01)  | (\$0.01)  | (\$0.01)  | (\$0.01)  | (\$0.01)  |
| Adjusted Fully Diluted Revised EPS                   | (\$1.05)  | (\$1.73)  | (\$0.14)  | (\$1.26)  | (\$0.49)  | (\$0.27)  | \$0.05    | \$0.47    | \$1.14    |

E= Morgan Stanley Research Estimates

Broadband Cable Television – April 5, 2002

Please see the important disclosures at the end of this report.

## Exhibit 65

**Adelphia Communications  
Balance Sheet Forecast**

|   | 2000              | 2001              | 2002E             | 2003E             | 2004E             | 2005E             | 2006E             |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Cash & Marketable Securities                | \$124.6           | \$157.4           | \$157.4           | \$157.4           | \$157.4           | \$157.4           | \$157.4           |
| Accounts Receivable                         | 251.7             | 309.7             | 311.6             | 356.1             | 406.0             | 463.4             | 525.2             |
| Other Current Assets                        | 0.0               | 0.0               | 0.0               | 0.0               | 0.0               | 0.0               | 0.0               |
| <b>Total Current Assets</b>                 | <b>376.3</b>      | <b>467.1</b>      | <b>469.0</b>      | <b>513.5</b>      | <b>563.4</b>      | <b>620.8</b>      | <b>682.6</b>      |
| Prop., Plant, & Equip.                      | 7,700.8           | 10,001.8          | 11,203.0          | 11,466.1          | 11,485.2          | 11,697.9          | 11,699.1          |
| Accumulated Depreciation                    | 1,575.9           | 1,853.5           | 1,908.1           | 1,920.1           | 1,920.9           | 1,930.6           | 1,930.7           |
| <b>Net Prop., Plant, &amp; Equip. (Rpt)</b> | <b>6,124.8</b>    | <b>8,148.3</b>    | <b>9,294.9</b>    | <b>9,546.1</b>    | <b>9,564.3</b>    | <b>9,767.3</b>    | <b>9,768.5</b>    |
| Investments in Unconsolidated Investments   | 247.0             | 280.9             | 280.9             | 280.9             | 280.9             | 280.9             | 280.9             |
| Intangible Assets                           | 14,091.4          | 14,722.0          | 14,722.0          | 14,722.0          | 14,722.0          | 14,722.0          | 14,722.0          |
| Other Assets                                | 660.0             | 660.0             | 660.0             | 660.0             | 660.0             | 660.0             | 660.0             |
| <b>Total Assets</b>                         | <b>\$21,499.5</b> | <b>\$24,278.2</b> | <b>\$25,426.7</b> | <b>\$25,722.4</b> | <b>\$25,790.5</b> | <b>\$26,051.0</b> | <b>\$26,113.9</b> |
| Short-term Debt                             | \$0.0             | \$0.0             | \$0.0             | \$0.0             | \$0.0             | \$0.0             | \$0.0             |
| Account Payable                             | 845.5             | 1,036.8           | 863.0             | 780.7             | 655.3             | 747.9             | 847.7             |
| Other Current Liabilities                   | 58.2              | 58.2              | 58.2              | 58.2              | 58.2              | 58.2              | 58.2              |
| <b>Total Current Liabilities</b>            | <b>903.7</b>      | <b>1,095.1</b>    | <b>921.3</b>      | <b>838.9</b>      | <b>713.5</b>      | <b>806.2</b>      | <b>905.9</b>      |
| Long-term Debt                              | 12,603.4          | 14,731.7          | 13,257.0          | 13,905.2          | 14,575.1          | 15,154.7          | 14,696.5          |
| Minority Interest                           | 616.2             | 616.2             | 616.2             | 616.2             | 616.2             | 616.2             | 616.2             |
| Deferred Taxes                              | 2,074.0           | 1,962.1           | 1,728.0           | 1,532.6           | 1,383.9           | 1,300.6           | 1,318.8           |
| Other Liabilities                           | 1,768.1           | 610.6             | 2,348.7           | 2,355.6           | 2,363.2           | 2,371.6           | 2,380.6           |
| Preferred Equity                            | 1,020.6           | 1,358.9           | 1,573.5           | 1,573.5           | 1,223.5           | 723.5             | 723.5             |
| Common Equity                               | 3,129.6           | 4,519.8           | 5,598.2           | 5,516.6           | 5,531.3           | 5,694.2           | 6,088.5           |
| <b>Total Equity</b>                         | <b>4,150.3</b>    | <b>5,878.7</b>    | <b>7,171.8</b>    | <b>7,090.2</b>    | <b>6,754.8</b>    | <b>6,417.8</b>    | <b>6,812.1</b>    |
| <b>Total Liabilities &amp; Equity</b>       | <b>\$21,499.5</b> | <b>\$24,278.2</b> | <b>\$25,426.7</b> | <b>\$25,722.4</b> | <b>\$25,790.5</b> | <b>\$26,051.0</b> | <b>\$26,113.9</b> |

E = Morgan Stanley Research Estimates

## Exhibit 86

Adelphia Communications  
Debt Capitalization Forecast

(\$ Million)

|   | 2000            | 2001E           | Pro Forma<br>2001 | 2002E           | 2003E           | 2004E           | 2005E           | 2006E           |
|---|-----------------|-----------------|-------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Parent Company and Cable Subsidiary Debt</b>       |                 |                 |                   |                 |                 |                 |                 |                 |
| Notes to Banks and Institutions                       | 5,160.0         | 4,146.1         | 1,977.8           | 4,132.9         | 6,294.3         | 7,178.9         | 8,098.9         | 9,541.2         |
| Capital Lease Obligations/Other                       | 148.9           | 148.9           | 148.9             | 148.9           | 148.9           | 148.9           | 148.9           | 148.9           |
| 10.25% Senior Notes due 2006                          | 0.0             | 500.0           | 500.0             | 500.0           | 500.0           | 500.0           | 500.0           | 0.0             |
| 9.25% Senior Notes due 2002                           | 325.0           | 325.0           | 325.0             | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             |
| 8.175% Senior Notes due 2003                          | 149.6           | 149.6           | 149.6             | 149.6           | 0.0             | 0.0             | 0.0             | 0.0             |
| 10.5% Senior Notes due 2004                           | 150.0           | 150.0           | 150.0             | 150.0           | 150.0           | 0.0             | 0.0             | 0.0             |
| 7.5% Senior Notes due 2004                            | 100.0           | 100.0           | 100.0             | 100.0           | 100.0           | 0.0             | 0.0             | 0.0             |
| 7.75% Senior Notes due 2009                           | 300.0           | 300.0           | 300.0             | 300.0           | 300.0           | 300.0           | 300.0           | 300.0           |
| 7.875% Senior Notes due 2009                          | 350.0           | 350.0           | 350.0             | 350.0           | 350.0           | 350.0           | 350.0           | 350.0           |
| 9.875% Senior Notes due 2007                          | 348.0           | 348.0           | 348.0             | 348.0           | 348.0           | 348.0           | 348.0           | 348.0           |
| 8.375% Senior Notes due 2008                          | 299.3           | 299.3           | 299.3             | 299.3           | 299.3           | 299.3           | 299.3           | 299.3           |
| 9.875% Senior Debentures due 2005                     | 128.9           | 128.5           | 128.5             | 128.7           | 128.9           | 128.5           | 0.0             | 0.0             |
| 9.375% Due 2008                                       | 496.5           | 496.5           | 496.5             | 496.5           | 496.5           | 496.5           | 496.5           | 496.5           |
| 10.875% Due 2010                                      | 744.5           | 744.5           | 744.5             | 744.5           | 744.5           | 744.5           | 744.5           | 744.5           |
| 10.25% Due 2011                                       | 0.0             | 1,000.0         | 1,000.0           | 1,000.0         | 1,000.0         | 1,000.0         | 1,000.0         | 1,000.0         |
| Subtotal  | 8,700.7         | 9,186.4         | 7,018.1           | 8,848.4         | 10,860.5        | 11,494.6        | 12,286.1        | 13,228.4        |
| <b>Century</b>  |                 |                 |                   |                 |                 |                 |                 |                 |
| 9 3/4% Senior Notes due 2002                          | 201.0           | 201.0           | 201.0             | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             |
| Zero Coupon Senior Discount Notes due 2003            | 354.4           | 386.5           | 386.5             | 421.6           | 0.0             | 0.0             | 0.0             | 0.0             |
| 9 1/2% Senior Notes due 2005                          | 251.0           | 251.0           | 251.0             | 251.0           | 251.0           | 251.0           | 0.0             | 0.0             |
| 8 7/8% Senior Notes due 2007                          | 243.8           | 243.8           | 243.8             | 243.8           | 243.8           | 243.8           | 243.8           | 243.8           |
| 8 3/4% Senior Notes due 2007                          | 217.4           | 217.4           | 217.4             | 217.4           | 217.4           | 217.4           | 217.4           | 217.4           |
| 8 3/8% Senior Notes due 2017                          | 94.4            | 94.4            | 94.4              | 94.4            | 94.4            | 94.4            | 94.4            | 94.4            |
| 8 3/8% Senior Notes due 2007                          | 94.9            | 94.9            | 94.9              | 94.9            | 94.9            | 94.9            | 94.9            | 94.9            |
| Senior Discount Notes due 2008, Series B              | 296.4           | 323.9           | 323.9             | 353.8           | 386.6           | 422.4           | 461.5           | 504.2           |
| Other   | 0.0             | 0.0             | 0.0               | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             |
| Subtotal  | 1,753.4         | 1,813.0         | 1,813.0           | 1,677.0         | 1,288.1         | 1,323.9         | 1,112.1         | 1,154.8         |
| <b>Frontier/Vision Partners</b>                       |                 |                 |                   |                 |                 |                 |                 |                 |
| 11% Senior Subordinated Notes due 2006                | 210.7           | 210.7           | 210.7             | 210.7           | 210.7           | 210.7           | 210.7           | 0.0             |
| 11.875% Senior Subordinated Notes due 2007            | 313.3           | 313.3           | 313.3             | 313.3           | 313.3           | 313.3           | 313.3           | 313.3           |
| Other   | 0.0             | 0.0             | 0.0               | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             |
| Subtotal  | 524.0           | 524.0           | 524.0             | 524.0           | 524.0           | 524.0           | 524.0           | 313.3           |
| <b>Olympus Communications</b>                         |                 |                 |                   |                 |                 |                 |                 |                 |
| 10.625% Due 2006                                      | 203.0           | 203.0           | 203.0             | 203.0           | 203.0           | 203.0           | 203.0           | 0.0             |
| Other Debt  | 0.0             | 0.0             | 0.0               | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             |
| Subtotal  | 203.0           | 203.0           | 203.0             | 203.0           | 203.0           | 203.0           | 203.0           | 0.0             |
| <b>Adelphia Cable Debt (excluding Convertibles)</b>   |                 |                 |                   |                 |                 |                 |                 |                 |
| Other Debt  | 31.8            | 0.0             | 0.0               | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             |
| 3.25% Convertible Subordinated Notes due 2021         | 0.0             | 575.0           | 975.0             | 975.0           | 0.0             | 0.0             | 0.0             | 0.0             |
| 6.0% Convertible Notes due 2006                       | 0.0             | 1,029.5         | 1,029.5           | 1,029.5         | 1,029.5         | 1,029.5         | 1,029.5         | 0.0             |
| Adelphia Cable Debt                                   | \$11,213.0      | \$13,331.0      | \$11,562.7        | \$13,257.0      | \$13,905.2      | \$14,575.1      | \$15,154.7      | \$14,696.5      |
| <b>Hyperion Debt</b>                                  |                 |                 |                   |                 |                 |                 |                 |                 |
| Bank Debt   | 548.6           | 521.8           | 521.8             | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             |
| 13% Senior Discount Notes of Hyperion due 2003        | 291.9           | 329.0           | 329.0             | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             |
| 12.25% Senior Secured Notes of Hyperion due 2004      | 250.0           | 250.0           | 250.0             | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             |
| 12.000% Senior Subordinated Notes of Hyperion due 200 | 300.0           | 300.0           | 300.0             | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             |
| Subtotal  | 1,390.5         | 1,400.8         | 1,400.8           | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             |
| <b>Total Debt including Convertible</b>               | <b>12,603.4</b> | <b>14,731.7</b> | <b>12,963.4</b>   | <b>13,257.0</b> | <b>13,905.2</b> | <b>14,575.1</b> | <b>15,154.7</b> | <b>14,696.5</b> |
| <b>Consolidated (Debt Only)</b>                       |                 |                 |                   |                 |                 |                 |                 |                 |
| Total Forward EBITDA                                  | \$1,456.2       | \$1,635.4       | \$1,648.0         | \$1,856.4       | \$2,075.7       | \$2,295.7       | \$2,594.9       | \$2,909.2       |
| Total Debt (w/out Convertibles) / EBITDA              | 7.7x            | 7.2x            | 5.8x              | 6.1x            | 6.2x            | 5.9x            | 5.4x            | 5.1x            |
| <b>Cable Forward EBITDA</b>                           |                 |                 |                   |                 |                 |                 |                 |                 |
| Cable Forward EBITDA                                  | \$1,456.2       | \$1,635.4       | \$1,635.4         | \$1,859.7       | \$2,094.0       | \$2,310.5       | \$2,514.5       | \$2,686.3       |
| Cable Debt (w/ Converts) / EBITDA                     | 7.7x            | 8.2x            | 7.1x              | 7.1x            | 6.6x            | 6.3x            | 6.0x            | 5.5x            |
| Consolidated Debt / EBITDA                            | 8.7x            | 9.0x            | 7.9x              | 7.1x            | 6.6x            | 6.3x            | 6.0x            | 5.5x            |
| <b>Total Forward EBITDA</b>                           |                 |                 |                   |                 |                 |                 |                 |                 |
| Total Debt (w/out Convertibles) / EBITDA              | \$1,466.2       | \$1,648.0       | \$1,648.0         | \$1,856.4       | \$2,075.7       | \$2,295.7       | \$2,594.9       | \$2,909.2       |
| Consolidated Debt / EBITDA                            | 7.6x            | 8.1x            | 7.0x              | 7.1x            | 6.7x            | 6.3x            | 5.8x            | 5.1x            |
| Consolidated Debt / EBITDA                            | 8.6x            | 8.9x            | 7.9x              | 7.1x            | 6.7x            | 6.3x            | 5.8x            | 5.1x            |

E = Morgan Stanley Research Estimates

Broadband Cable Television - April 5, 2002

Please see the important disclosures at the end of this report.

## Exhibit 67

**Adelphia Communications  
Rigas Family Contribution 1998-Today***Dollars in Millions*

| Closing Date | Instrument                       | Common Share<br>Equivalents | Total<br>Value   | Implied<br>Per Share |
|--------------|----------------------------------|-----------------------------|------------------|----------------------|
| 11/9/2001    | Class B Common Shares**          | 7,500,000                   | \$155.6          | \$20.75              |
| 11/9/2001    | Series E Mandatory Pfd Stock**   | 1,993,620                   | \$50.0           | \$25.08              |
| 1/21/2002    | 3.25% Convertible Notes due 2021 | 9,140,768                   | \$400.0          | \$43.76              |
| 10/22/2001   | Class B Common Shares            | 5,819,367                   | \$259.9          | \$44.66              |
| 10/22/2001   | 6% Convertible Notes due 2006    | 3,016,216                   | \$167.4          | \$55.50              |
| 1/21/2000    | Class B Common Shares            | 5,901,522                   | \$375.0          | \$63.54              |
| 7/3/2000     | Class B Common Shares            | 2,500,000                   | \$145.0          | \$58.00              |
| 1/14/1999    | Class B Common Shares            | 4,000,000                   | \$173.0          | \$43.25              |
| 8/8/1998     | Class A Common Shares            | 4,090,315                   | \$125.0          | \$30.56              |
| <b>Total</b> |                                  | <b>43,961,808</b>           | <b>\$1,850.9</b> | <b>\$42.10</b>       |

\* Includes securities issued to Highland L.P., an investment company controlled by the Rigas family.

\*\* Expected to close by August 2002.

Source: Morgan Stanley Research Estimates

Broadband Cable Television – April 5, 2002

Please see the important disclosures at the end of this report.

Exhibit 68

**Adelphia Communications  
Pro Forma Family Ownership Level**

|                            |                                  | Adelphia Shares |         |       |
|----------------------------|----------------------------------|-----------------|---------|-------|
|                            |                                  | Class B         | Class A | Total |
| As of 9/30/01              |                                  | 19.2            | 25.6    | 44.8  |
|                            |                                  | 32.6            |         |       |
| Closing Date               | Transactions since 9/30/01       | Class B         | Class A | Total |
| 10/22/2001                 | Class B Common Shares            | 5.8             |         |       |
| 10/22/2001                 | 6% Convertible Notes due 2006    | 5.0             |         |       |
| 1/21/2002                  | 3.25% Convertible Notes due 2021 | 9.1             |         |       |
| 11/9/2001                  | Class B Common Shares**          | 7.5             |         |       |
| 11/9/2001                  | Series E Mandatory Pfd Stock**   | 2.0             |         |       |
|                            |                                  | 27.5            |         |       |
| Pro Forma Rigas Total      |                                  | 46.7            | 25.6    | 72.3  |
| Pro Forma Total Shares *** |                                  | 46.7            | 297.3   | 344.0 |
| % Ownership                |                                  | 100%            | 9%      | 21%   |

\*\* Expected to close by August 2002.

\*\*\* Fully diluted including all convertible debt and convertible preferred equity.

Source: Morgan Stanley Research Estimates

## Exhibit 89

**Adelphia Communications**  
**Revenue and Operating Cash Flow Comparisons, Quarterly**

(\$ Millions)

|   | 2001           |                |                |                | 2002E          |                |                |                |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|   | 1Q             | 2Q             | 3Q             | 4Q             | 1QE            | 2QE            | 3QE            | 4QE            |
| <b>Cable/Telephony Revenue</b>                  |                |                |                |                |                |                |                |                |
| Analog  | \$677.7        | \$711.8        | \$706.6        | \$720.6        | \$729.8        | \$762.4        | \$770.4        | \$776.4        |
| Digital Cable                                   | 36.5           | 46.3           | 53.3           | 59.6           | 68.9           | 76.8           | 83.8           | 89.8           |
| High-Speed Data                                 | 13.6           | 18.3           | 22.4           | 28.8           | 38.1           | 46.9           | 56.5           | 71.3           |
| <b>Total Cable Television Revenue</b>           | <b>\$727.8</b> | <b>\$776.4</b> | <b>\$782.3</b> | <b>\$809.0</b> | <b>\$836.8</b> | <b>\$886.1</b> | <b>\$910.6</b> | <b>\$937.6</b> |
| Growth %  | 20.6%          | 24.4%          | 23.3%          | 16.3%          | 15.0%          | 14.1%          | 16.4%          | 15.9%          |
| <b>Telephony (Residential &amp; Commercial)</b> | <b>110.3</b>   | <b>116.9</b>   | <b>116.3</b>   | <b>141.0</b>   | <b>7.4</b>     | <b>7.5</b>     | <b>7.8</b>     | <b>8.0</b>     |
| <b>Total Cable/Telephony Revenue</b>            | <b>\$838.2</b> | <b>\$893.3</b> | <b>\$898.6</b> | <b>\$950.0</b> | <b>\$844.1</b> | <b>\$893.7</b> | <b>\$918.4</b> | <b>\$945.6</b> |
| Growth %  | 24.6%          | 26.9%          | 23.5%          | 18.1%          | 0.7%           | 0.0%           | 2.2%           | -0.5%          |
| <b>Cable/Telephony Gross Profit</b>             |                |                |                |                |                |                |                |                |
| Analog  | \$492.9        | \$513.8        | \$510.5        | \$522.4        | \$520.6        | \$540.4        | \$546.1        | \$550.2        |
| Digital Cable                                   | 29.4           | 37.2           | 42.8           | 47.8           | 53.7           | 59.1           | 64.5           | 69.2           |
| High-Speed Data                                 | 10.9           | 14.8           | 18.0           | 23.1           | 30.0           | 36.7           | 44.2           | 55.8           |
| <b>Total Cable Television Gross Profit</b>      | <b>\$533.3</b> | <b>\$565.8</b> | <b>\$571.3</b> | <b>\$593.4</b> | <b>\$604.3</b> | <b>\$636.3</b> | <b>\$654.8</b> | <b>\$675.2</b> |
| Gross Profit Margin                             | 73.3%          | 72.9%          | 73.0%          | 73.3%          | 72.2%          | 71.8%          | 71.9%          | 72.0%          |
| <b>Telephony (Residential &amp; Commercial)</b> | <b>57.1</b>    | <b>62.3</b>    | <b>68.7</b>    | <b>81.9</b>    | <b>5.2</b>     | <b>5.3</b>     | <b>5.5</b>     | <b>5.7</b>     |
| <b>Total Cable/Telephony Gross Profit</b>       | <b>\$590.4</b> | <b>\$628.1</b> | <b>\$640.0</b> | <b>\$675.3</b> | <b>\$609.5</b> | <b>\$641.6</b> | <b>\$660.4</b> | <b>\$681.0</b> |
| Gross Profit Margin                             | 70.4%          | 70.3%          | 71.2%          | 71.1%          | 72.2%          | 71.8%          | 71.9%          | 72.0%          |
| <b>Cable/Telephony EBITDA</b>                   |                |                |                |                |                |                |                |                |
| Core Cable Television EBITDA                    | 330.8          | 351.4          | 362.7          | 372.1          | 382.2          | 405.3          | 421.7          | 426.2          |
| Growth %  | 16.3%          | 18.4%          | 18.9%          | 19.4%          | 15.5%          | 15.3%          | 16.3%          | 14.5%          |
| <b>Telephony EBITDA</b>                         | <b>(20.9)</b>  | <b>(9.2)</b>   | <b>(5.6)</b>   | <b>(14.3)</b>  | <b>2.9</b>     | <b>3.0</b>     | <b>3.2</b>     | <b>3.4</b>     |
| <b>Total Cable/Telephony EBITDA</b>             | <b>\$309.9</b> | <b>\$342.2</b> | <b>\$357.1</b> | <b>\$357.9</b> | <b>\$385.1</b> | <b>\$408.3</b> | <b>\$424.9</b> | <b>\$429.6</b> |
| Growth %  | 18.3%          | 25.6%          | 27.7%          | 28.9%          | 24.3%          | 19.3%          | 19.0%          | 20.1%          |
| <b>Cable/Telephony EBITDA</b>                   |                |                |                |                |                |                |                |                |
| Total Cable Margins excl. Telephony             | 45.5%          | 45.3%          | 46.4%          | 46.0%          | 45.7%          | 45.7%          | 46.3%          | 45.5%          |
| Telephony Margins                               | NM             | NM             | NM             | NM             | NM             | NM             | NM             | NM             |
| <b>Total Cable/Telephony Margins</b>            | <b>37.0%</b>   | <b>38.3%</b>   | <b>39.7%</b>   | <b>37.7%</b>   | <b>45.6%</b>   | <b>45.7%</b>   | <b>46.3%</b>   | <b>45.4%</b>   |

E= Morgan Stanley Research Estimates

Broadband Cable Television – April 5, 2002

Please see the important disclosures at the end of this report.

Exhibit 70

**Adelphia Communications**  
**Revenue and Operating Cash Flow Comparisons, 2000-2006E**

(\$ Millions)

|   | 2000             | 2001             | Pro Forma        |                  | 2002E            | 2003E            | 2004E            | 2005E            | 2006E            |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| <b>Cable/Telephony Revenue</b>                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Analog  | \$2,469.5        | \$2,816.6        | \$2,756.9        | \$2,886.4        | \$3,039.0        | \$3,219.9        | \$3,437.4        | \$3,636.4        | \$3,821.6        |
| Digital Cable                                   | 49.9             | 195.7            | 49.9             | 195.7            | 319.3            | 433.5            | 546.9            | 640.4            | 711.8            |
| High-Speed Data                                 | 38.0             | 83.2             | 38.0             | 83.2             | 212.8            | 422.9            | 611.7            | 819.0            | 1,028.6          |
| <b>Total Cable Television Revenue</b>           | <b>\$2,557.4</b> | <b>\$3,095.5</b> | <b>\$2,844.7</b> | <b>\$3,165.3</b> | <b>\$3,571.1</b> | <b>\$4,076.4</b> | <b>\$4,596.1</b> | <b>\$5,095.8</b> | <b>\$5,562.0</b> |
| Growth %  | 125.6%           | 21.0%            | 7.3%             | 11.3%            | 12.8%            | 14.1%            | 12.7%            | 10.9%            | 9.1%             |
| <b>Telephony (Residential &amp; Commercial)</b> | <b>352.0</b>     | <b>484.6</b>     | <b>10.0</b>      | <b>25.0</b>      | <b>30.7</b>      | <b>40.8</b>      | <b>97.6</b>      | <b>261.4</b>     | <b>510.0</b>     |
| <b>Total Cable/Telephony Revenue</b>            | <b>\$2,909.4</b> | <b>\$3,580.1</b> | <b>\$2,854.7</b> | <b>\$3,190.3</b> | <b>\$3,601.9</b> | <b>\$4,117.2</b> | <b>\$4,693.7</b> | <b>\$5,357.3</b> | <b>\$6,072.0</b> |
| Growth %  | 125.9%           | 23.1%            | 7.5%             | 11.8%            | 12.9%            | 14.3%            | 14.0%            | 14.1%            | 13.3%            |
| <b>Cable/Telephony Gross Profit</b>             |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Analog  | \$1,829.6        | \$2,039.7        | \$2,043.3        | \$2,101.5        | \$2,157.4        | \$2,252.1        | \$2,372.4        | \$2,487.3        | \$2,596.0        |
| Digital Cable                                   | 40.3             | 157.3            | 40.3             | 157.3            | 246.6            | 317.4            | 378.5            | 417.7            | 435.7            |
| High-Speed Data                                 | 31.3             | 66.8             | 31.3             | 66.8             | 166.8            | 325.2            | 463.7            | 620.0            | 777.8            |
| <b>Total Cable Television Gross Profit</b>      | <b>\$1,901.2</b> | <b>\$2,263.8</b> | <b>\$2,114.8</b> | <b>\$2,325.6</b> | <b>\$2,570.7</b> | <b>\$2,894.8</b> | <b>\$3,214.6</b> | <b>\$3,525.0</b> | <b>\$3,809.5</b> |
| Gross Profit Margin                             | 74.3%            | 73.1%            | 74.3%            | 73.5%            | 72.0%            | 71.0%            | 69.9%            | 69.2%            | 68.5%            |
| <b>Telephony (Residential &amp; Commercial)</b> | <b>184.1</b>     | <b>269.4</b>     | <b>184.1</b>     | <b>269.4</b>     | <b>21.8</b>      | <b>23.8</b>      | <b>48.3</b>      | <b>128.5</b>     | <b>262.5</b>     |
| <b>Total Cable/Telephony Gross Profit</b>       | <b>\$2,085.3</b> | <b>\$2,533.2</b> | <b>\$2,298.9</b> | <b>\$2,595.0</b> | <b>\$2,592.5</b> | <b>\$2,918.6</b> | <b>\$3,262.9</b> | <b>\$3,653.5</b> | <b>\$4,072.0</b> |
| Gross Profit Margin                             | 71.7%            | 70.8%            | 80.5%            | 81.3%            | 72.0%            | 70.9%            | 69.5%            | 68.2%            | 67.1%            |
| <b>Cable/Telephony EBITDA</b>                   |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Core Cable Television EBITDA                    | 1,197.9          | 1,415.8          | 1,311.9          | 1,456.2          | 1,635.4          | 1,859.7          | 2,094.0          | 2,310.5          | 2,514.5          |
| Growth %  | 107.7%           | 18.2%            | 11.9%            | 11.0%            | 12.3%            | 13.7%            | 12.6%            | 10.3%            | 8.8%             |
| <b>Telephony EBITDA</b>                         | <b>(106.2)</b>   | <b>(50.0)</b>    | <b>0.0</b>       | <b>10.0</b>      | <b>12.6</b>      | <b>(3.4)</b>     | <b>(18.3)</b>    | <b>(14.8)</b>    | <b>80.4</b>      |
| <b>Total Cable/Telephony EBITDA</b>             | <b>\$1,091.7</b> | <b>\$1,365.8</b> | <b>\$1,311.9</b> | <b>\$1,466.2</b> | <b>\$1,648.0</b> | <b>\$1,856.4</b> | <b>\$2,075.7</b> | <b>\$2,295.7</b> | <b>\$2,594.9</b> |
| Growth %  | 105.9%           | 25.1%            | 13.9%            | 11.8%            | 12.4%            | 12.6%            | 11.8%            | 10.6%            | 13.0%            |

E= Morgan Stanley Research Estimates

Broadband Cable Television – April 5, 2002

Please see the important disclosures at the end of this report.

## Exhibit 71

**Adelphia Communications  
Consolidated Cable Television Operations, Quarterly**

(\$ Millions, except per-share data)

|   | 2001      |           |           |           | 2002E     |           |           |           |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|   | 1Q        | 2Q        | 3Q        | 4Q        | 1QE       | 2QE       | 3QE       | 4QE       |
| Homes Passed                                | 9,278,726 | 9,273,241 | 9,320,280 | 9,549,011 | 9,584,820 | 9,620,629 | 9,620,629 | 9,692,246 |
| % Change                                    | 19.2%     | 18.5%     | 16.0%     | 9.0%      | 3.3%      | 3.7%      | 3.2%      | 1.5%      |
| Basic Subscribers                           | 5,723,315 | 5,672,225 | 5,693,035 | 5,810,253 | 5,820,711 | 5,823,326 | 5,825,941 | 5,836,399 |
| % Change                                    | 14.4%     | 13.0%     | 9.7%      | 4.7%      | 1.7%      | 2.7%      | 2.3%      | 0.4%      |
| Homes Passed Penetration                    | 61.7%     | 61.2%     | 61.1%     | 60.8%     | 60.7%     | 60.5%     | 60.6%     | 60.2%     |
| Premium Subscriptions                       | 2,804,970 | 2,779,931 | 2,790,130 | 2,847,578 | 2,903,426 | 2,861,195 | 2,867,338 | 2,950,780 |
| % Change                                    | 20.1%     | 18.7%     | 15.1%     | 10.0%     | 3.6%      | 2.9%      | 2.8%      | 3.6%      |
| Basic subscriber Penetration                | 49.0%     | 49.0%     | 49.0%     | 49.0%     | 49.9%     | 49.1%     | 49.2%     | 50.6%     |
| Digital Subscriptions                       | 1,247,197 | 1,503,413 | 1,682,371 | 1,879,044 | 2,204,044 | 2,347,044 | 2,509,544 | 2,698,261 |
| % Change                                    | 328.0%    | 339.5%    | 221.8%    | 107.8%    | 76.7%     | 56.1%     | 49.2%     | 43.6%     |
| Homes Passed Penetration                    | 13.4%     | 16.2%     | 18.1%     | 19.7%     | 23.0%     | 24.4%     | 26.1%     | 27.8%     |
| Basic subscriber Penetration                | 21.8%     | 26.5%     | 29.6%     | 32.3%     | 37.9%     | 40.3%     | 43.1%     | 46.2%     |
| Premium Subscriber Penetration              | 44.5%     | 54.1%     | 60.3%     | 66.0%     | 75.9%     | 82.0%     | 87.5%     | 91.4%     |
| HSCDS Subscribers                           | 196,941   | 243,185   | 315,104   | 377,510   | 475,010   | 559,510   | 663,510   | 787,010   |
| % Change                                    | 297.3%    | 241.8%    | 200.3%    | 154.2%    | 141.2%    | 130.1%    | 110.6%    | 108.5%    |
| Homes Passed Penetration                    | 2.1%      | 2.6%      | 3.4%      | 4.0%      | 5.0%      | 5.8%      | 6.9%      | 8.1%      |
| Basic subscriber Penetration                | 3.4%      | 4.3%      | 5.5%      | 6.5%      | 8.2%      | 9.6%      | 11.4%     | 13.5%     |
| Monthly Reg. Rev. per Basic Sub.            | \$33.15   | \$34.25   | \$34.18   | \$34.61   | \$34.89   | \$36.15   | \$36.63   | \$36.63   |
| % Change                                    | 1.0%      | 3.2%      | 4.1%      | 3.1%      | 5.2%      | 5.5%      | 7.2%      | 5.8%      |
| Monthly Reg. & Unreg. Rev. per Basic Sub.   | \$40.27   | \$41.67   | \$41.45   | \$42.05   | \$41.83   | \$43.65   | \$44.09   | \$44.38   |
| % Change                                    | 2.5%      | 3.2%      | 4.6%      | 3.4%      | 3.9%      | 4.8%      | 6.4%      | 5.5%      |
| Monthly Digital Video Rev. per Digital Sub. | \$11.33   | \$11.22   | \$11.15   | \$11.15   | \$11.25   | \$11.25   | \$11.50   | \$11.50   |
| % Change                                    | 22.4%     | 27.2%     | 44.3%     | -1.2%     | -0.7%     | 0.3%      | 3.1%      | 3.1%      |
| Monthly HSCDS Rev. per HSCDS Sub.           | 26.28     | 27.77     | 26.78     | 27.75     | 29.77     | 30.23     | 30.78     | 32.78     |
| % Change                                    | -51.2%    | -43.0%    | -36.2%    | -4.4%     | 13.3%     | 8.8%      | 14.9%     | 18.1%     |
| Regulated Analog Revenues                   | \$557.9   | \$585.1   | \$582.7   | \$593.1   | \$608.7   | \$631.3   | \$640.0   | \$640.7   |
| % Change                                    | 13.3%     | 17.2%     | 14.7%     | 8.8%      | 9.1%      | 7.9%      | 9.8%      | 8.0%      |
| Premium and Non-regulated Revenues          | 119.7     | 126.7     | 123.9     | 127.5     | 121.1     | 131.1     | 130.4     | 135.7     |
| % Change                                    | 23.6%     | 17.6%     | 17.8%     | 10.6%     | 1.1%      | 3.5%      | 5.2%      | 6.5%      |
| Digital Video Revenues                      | 36.5      | 46.3      | 53.3      | 59.6      | 68.9      | 76.8      | 83.8      | 89.8      |
| % Change                                    | 401.1%    | 452.3%    | 431.5%    | 146.5%    | 88.5%     | 66.0%     | 57.2%     | 50.8%     |
| HSCDS Revenues                              | 13.6      | 18.3      | 22.4      | 28.8      | 38.1      | 46.9      | 56.5      | 71.3      |
| % Change                                    | 93.6%     | 107.8%    | 102.4%    | 161.4%    | 179.5%    | 155.8%    | 151.8%    | 147.4%    |
| Total Revenue                               | \$727.8   | \$776.4   | \$782.3   | \$809.0   | \$836.8   | \$886.1   | \$910.6   | \$937.6   |
| % Change                                    | 20.6%     | 24.4%     | 23.3%     | 16.3%     | 15.0%     | 14.1%     | 16.4%     | 15.9%     |

E= Morgan Stanley Research Estimate.

Broadband Cable Television – April 5, 2002

Please see the important disclosures at the end of this report.

## Exhibit 72

**Adelphia Communications  
Consolidated Cable Television Operations, Quarterly (continued)**

(\$ Millions, except per-share data)

|  | 2001    |         |         |         | 2002E   |         |         |         |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
|  | 1Q      | 2Q      | 3Q      | 4Q      | 1QE     | 2QE     | 3QE     | 4QE     |
| <b>Total Revenue</b>                                   | \$727.8 | \$776.4 | \$782.3 | \$809.0 | \$836.8 | \$886.1 | \$910.6 | \$937.6 |
| % Change   | 20.6%   | 24.4%   | 23.3%   | 16.3%   | 15.0%   | 14.1%   | 16.4%   | 15.9%   |
| <b>Analog Programming Costs</b>                        | \$184.8 | \$197.9 | \$196.1 | \$198.1 | \$209.2 | \$222.0 | \$224.3 | \$226.2 |
| % of Total Analog Revenue                              | 27.3%   | 27.8%   | 27.7%   | 27.5%   | 28.7%   | 29.1%   | 29.1%   | 29.1%   |
| <b>Digital Prog. &amp; Direct Costs</b>                | 7.1     | 9.1     | 10.5    | 11.8    | 15.2    | 17.7    | 19.3    | 20.7    |
| % of Total Digital Revenue                             | 19.4%   | 19.6%   | 19.7%   | 19.7%   | 22.0%   | 23.0%   | 23.0%   | 23.0%   |
| <b>HSCDS Direct Operating Costs</b>                    | 2.7     | 3.6     | 4.4     | 5.7     | 8.1     | 10.2    | 12.2    | 15.5    |
| % of Total HSCDS Revenue                               | 19.8%   | 19.4%   | 19.8%   | 19.8%   | 21.2%   | 21.1%   | 21.7%   | 21.7%   |
| <b>Total Programming and Direct Costs</b>              | 194.6   | 210.6   | 211.0   | 215.6   | 232.4   | 249.9   | 255.8   | 262.4   |
| % of Total HSCDS Revenue                               | 26.7%   | 27.1%   | 27.0%   | 26.7%   | 27.8%   | 28.2%   | 28.1%   | 28.0%   |
| <b>Analog Service Gross Profit</b>                     | 492.9   | 513.8   | 510.5   | 522.4   | 520.6   | 540.4   | 546.1   | 550.2   |
| % of Total Analog Revenue                              | 72.7%   | 72.2%   | 72.3%   | 72.3%   | 71.3%   | 70.9%   | 70.9%   | 70.9%   |
| <b>Digital Service Gross Profit</b>                    | 29.4    | 37.2    | 42.8    | 47.8    | 53.7    | 59.1    | 64.5    | 69.2    |
| % of Total Digital Revenue                             | 80.6%   | 80.4%   | 80.3%   | 80.3%   | 78.0%   | 77.0%   | 77.0%   | 77.0%   |
| <b>HSCDS Gross Profit</b>                              | 10.9    | 14.8    | 18.0    | 23.1    | 30.0    | 36.7    | 44.2    | 55.8    |
| % of Total HSCDS Revenue                               | 80.2%   | 80.6%   | 80.2%   | 80.2%   | 78.8%   | 78.3%   | 78.3%   | 78.3%   |
| <b>Total Gross Profit</b>                              | \$533.3 | \$565.8 | \$571.3 | \$593.4 | \$604.3 | \$636.3 | \$654.8 | \$675.2 |
| % of Total Revenue                                     | 73.3%   | 72.9%   | 73.0%   | 73.3%   | 72.2%   | 71.8%   | 71.9%   | 72.0%   |
| <b>Other Operating Costs</b>                           | 67.4    | 73.5    | 74.7    | 82.2    | 76.0    | 80.8    | 81.4    | 94.3    |
| % of Total Revenues                                    | 9.3%    | 9.5%    | 9.6%    | 10.2%   | 9.1%    | 9.1%    | 8.9%    | 10.1%   |
| <b>Marketing Costs</b>                                 | 28.0    | 29.6    | 25.3    | 30.3    | 29.3    | 31.0    | 31.9    | 32.8    |
| % of Total Revenues                                    | 3.8%    | 3.8%    | 3.2%    | 3.8%    | 3.5%    | 3.5%    | 3.5%    | 3.5%    |
| <b>Gen. &amp; Admin. Costs</b>                         | 107.1   | 111.3   | 108.7   | 108.7   | 116.9   | 119.2   | 120.0   | 121.9   |
| % of Total Revenues                                    | 14.7%   | 14.3%   | 13.9%   | 13.4%   | 14.0%   | 13.4%   | 13.2%   | 13.0%   |
| <b>Operating Costs</b>                                 | \$397.0 | \$425.0 | \$419.7 | \$436.9 | \$454.5 | \$480.8 | \$489.0 | \$511.4 |
| % of Revenues  | 54.5%   | 54.7%   | 53.6%   | 54.0%   | 54.3%   | 54.3%   | 53.7%   | 54.5%   |
| <b>EBITDA incl. New Serv. Start-up Losses x Teleph</b> | \$330.8 | \$351.4 | \$362.7 | \$372.1 | \$382.2 | \$405.3 | \$421.7 | \$426.2 |
| Operating Margin                                       | 45.5%   | 45.3%   | 46.4%   | 46.0%   | 45.7%   | 45.7%   | 46.3%   | 45.5%   |
| <b>Add: Broadband Losses excl. Telephony</b>           | \$0.0   | \$0.0   | \$0.0   | \$0.0   | \$0.0   | \$0.0   | \$0.0   | \$0.0   |
| <b>EBITDA excl. New Serv. Start-up Losses</b>          | \$330.8 | \$351.4 | \$362.7 | \$372.1 | \$382.2 | \$405.3 | \$421.7 | \$426.2 |
| Operating Margin                                       | 45.5%   | 45.3%   | 46.4%   | 46.0%   | 45.7%   | 45.7%   | 46.3%   | 45.5%   |
| % Change   | 16.3%   | 18.4%   | 18.9%   | 19.4%   | 15.5%   | 15.3%   | 16.3%   | 14.5%   |

E = Morgan Stanley Research Estimates

## Exhibit 73

## Adelphia Communications

## Consolidated Cable Television Operations, 2000-2006E

(\$ Millions, except per-share data)

|   | 2001      | Pro Forma For All Acquisitions |           |           | 2002E     | 2003E     | 2004E     | 2005E      | 2006E      |
|---|-----------|--------------------------------|-----------|-----------|-----------|-----------|-----------|------------|------------|
| Homes Passed                                | 9,449,011 | 9,268,860                      | 9,407,893 | 9,549,011 | 9,692,246 | 9,837,630 | 9,985,194 | 10,134,972 | 10,286,997 |
| % Change                                    | 9.0%      | NM                             | 1.5%      | 1.5%      | 1.5%      | 1.5%      | 1.5%      | 1.5%       | 1.5%       |
| Basic Subscribers                           | 5,810,253 | 5,720,424                      | 5,794,790 | 5,810,253 | 5,836,399 | 5,861,000 | 5,885,000 | 5,909,000  | 5,933,000  |
| % Change                                    | 4.7%      | NM                             | 1.3%      | 0.3%      | 0.5%      | 0.4%      | 0.4%      | 0.4%       | 0.4%       |
| Homes Passed Penetration                    | 60.8%     | 61.7%                          | 61.6%     | 60.8%     | 60.2%     | 59.6%     | 58.9%     | 58.3%      | 57.7%      |
| Premium Subscriptions                       | 2,847,578 | 2,670,443                      | 2,705,159 | 2,847,578 | 2,950,780 | 3,095,284 | 3,231,841 | 3,315,913  | 3,362,325  |
| % Change                                    | 10.0%     | NM                             | 1.3%      | 5.3%      | 3.6%      | 4.9%      | 4.4%      | 2.6%       | 1.4%       |
| Basic subscriber Penetration                | 49.0%     | 46.7%                          | 46.7%     | 49.0%     | 50.6%     | 52.8%     | 54.9%     | 56.1%      | 56.7%      |
| Digital Subscriptions                       | 1,879,044 | 233,949                        | 904,263   | 1,879,044 | 2,698,261 | 3,463,583 | 4,083,430 | 4,496,797  | 4,761,751  |
| % Change                                    | 107.8%    | 462.2%                         | 286.5%    | 107.8%    | 43.6%     | 28.4%     | 17.9%     | 10.1%      | 5.9%       |
| Homes Passed Penetration                    | 19.7%     | 2.5%                           | 9.6%      | 19.7%     | 27.8%     | 35.2%     | 40.9%     | 44.4%      | 46.3%      |
| Basic subscriber Penetration                | 32.3%     | 4.1%                           | 15.6%     | 32.3%     | 46.2%     | 59.1%     | 69.4%     | 76.1%      | 80.3%      |
| Premium Subscriber Penetration              | 66.0%     | 8.8%                           | 33.4%     | 66.0%     | 91.4%     | 111.9%    | 126.3%    | 135.6%     | 141.6%     |
| HSCDS Subscribers                           | 377,510   | 37,495                         | 148,504   | 377,510   | 787,010   | 1,218,834 | 1,715,074 | 2,242,504  | 2,756,034  |
| % Change                                    | 154.2%    | 142.9%                         | 296.1%    | 154.2%    | 108.5%    | 54.9%     | 40.7%     | 30.8%      | 22.9%      |
| Homes Passed Penetration                    | 4.0%      | 0.4%                           | 1.6%      | 4.0%      | 8.1%      | 12.4%     | 17.2%     | 22.1%      | 26.8%      |
| Basic subscriber Penetration                | 6.5%      | 0.7%                           | 2.6%      | 6.5%      | 13.5%     | 20.8%     | 29.1%     | 38.0%      | 46.5%      |
| Monthly Reg. Rev. per Basic Sub.            | \$34.05   | \$32.83                        | \$33.09   | \$34.14   | \$36.07   | \$37.80   | \$39.60   | \$41.50    | \$43.49    |
| % Change                                    | 2.8%      | 12.4%                          | 0.8%      | 3.2%      | 5.7%      | 4.8%      | 4.8%      | 4.8%       | 4.8%       |
| Monthly Reg. & Unreg. Rev. per Basic Sub.   | 41.36     | 38.99                          | 39.90     | 41.45     | 43.49     | 45.88     | 48.77     | 51.39      | 53.79      |
| % Change                                    | 3.4%      | 5.7%                           | 2.3%      | 3.9%      | 4.9%      | 5.5%      | 6.3%      | 5.4%       | 4.7%       |
| Monthly Digital Video Rev. per Digital Sub. | 11.20     | 9.36                           | 7.30      | 11.72     | 11.38     | 11.73     | 12.08     | 12.44      | 12.81      |
| % Change                                    | 16.2%     | -40.4%                         | -22.0%    | 60.5%     | -2.9%     | 3.0%      | 3.0%      | 3.0%       | 3.0%       |
| Monthly HSCDS Rev. per HSCDS Sub.           | 27.24     | 41.11                          | 34.02     | 26.37     | 31.10     | 35.14     | 34.75     | 34.49      | 34.30      |
| % Change                                    | -31.4%    | -32.4%                         | -17.2%    | -22.5%    | 14.2%     | 13.0%     | -1.1%     | -0.7%      | -0.6%      |
| Regulated Analog Revenues                   | \$2,318.8 | \$2,208.6                      | \$2,285.9 | \$2,376.9 | \$2,520.8 | \$2,652.6 | \$2,791.0 | \$2,936.5  | \$3,089.9  |
| % Change                                    | 13.4%     | 15.9%                          | 3.5%      | 4.0%      | 6.1%      | 5.2%      | 5.2%      | 5.2%       | 5.2%       |
| Premium and Non-regulated Revenues          | 497.8     | 414.4                          | 470.9     | 509.5     | 518.2     | 567.3     | 646.5     | 699.9      | 731.7      |
| % Change                                    | 17.1%     | -17.4%                         | 13.7%     | 8.2%      | 1.7%      | 9.5%      | 14.0%     | 8.3%       | 4.6%       |
| Digital Video Revenues                      | 195.7     | 15.5                           | 49.9      | 195.7     | 319.3     | 433.5     | 546.9     | 640.4      | 711.8      |
| % Change                                    | 292.4%    | 252.1%                         | 222.2%    | 292.4%    | 63.2%     | 35.8%     | 26.2%     | 17.1%      | 11.1%      |
| HSCDS Revenues                              | 83.2      | 13.1                           | 38.0      | 83.2      | 212.8     | 422.9     | 611.7     | 819.0      | 1,028.6    |
| % Change                                    | 119.2%    | 124.8%                         | 190.8%    | 119.2%    | 155.7%    | 98.8%     | 44.6%     | 33.9%      | 25.6%      |
| Total Revenue                               | \$3,095.5 | \$2,651.5                      | \$2,852.6 | \$3,165.3 | \$3,571.1 | \$4,076.4 | \$4,596.1 | \$5,095.8  | \$5,562.0  |
| % Change                                    | 21.0%     | 9.7%                           | 7.6%      | 11.0%     | 12.8%     | 14.1%     | 12.7%     | 10.9%      | 9.1%       |

E= Morgan Stanley Research Estimates

Exhibit 74

**Adelphia Communications**  
**Consolidated Cable Television Operations, 2000-2006E (continued)**

(\$ Millions, except per-share data)

|   | Pro Forma For All Acquisitions |           |           |           |           |           |           |           |           |
|---|--------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|   | 2001                           | 1999      | 2000      | 2001      | 2002E     | 2003E     | 2004E     | 2005E     | 2006E     |
| Total Revenue                                   | \$3,095.5                      | \$2,651.5 | \$2,852.6 | \$3,165.3 | \$3,571.1 | \$4,076.4 | \$4,596.1 | \$5,095.8 | \$5,562.0 |
| % Change  | 21.0%                          | 9.7%      | 7.6%      | 11.0%     | 12.8%     | 14.1%     | 12.7%     | 10.9%     | 9.1%      |
| Analog Programming Costs                        | \$776.9                        | \$636.8   | \$713.6   | \$784.8   | \$881.6   | \$967.8   | \$1,065.1 | \$1,149.1 | \$1,225.6 |
| % of Total Analog Revenue                       | 27.6%                          | 24.3%     | 25.9%     | 27.2%     | 29.0%     | 30.1%     | 31.0%     | 31.6%     | 32.1%     |
| Digital Prog. & Direct Costs                    | 38.4                           | 3.0       | 9.6       | 38.4      | 72.8      | 116.1     | 168.4     | 222.8     | 276.1     |
| % of Total Digital Revenue                      | 19.6%                          | 19.5%     | 19.3%     | 19.6%     | 22.8%     | 26.8%     | 30.8%     | 34.8%     | 38.8%     |
| HSCDS Direct Operating Costs                    | 16.4                           | 3.1       | 6.7       | 16.4      | 46.0      | 97.7      | 148.0     | 199.0     | 250.8     |
| % of Total HSCDS Revenue                        | 19.7%                          | 23.5%     | 17.6%     | 19.7%     | 21.6%     | 23.1%     | 24.2%     | 24.3%     | 24.4%     |
| Total Programming and Direct Costs              | 831.8                          | 642.9     | 729.9     | 839.7     | 1,000.4   | 1,181.6   | 1,381.4   | 1,570.9   | 1,752.5   |
| % of Total HSCDS Revenue                        | 26.9%                          | 24.2%     | 25.6%     | 26.5%     | 28.0%     | 29.0%     | 30.1%     | 30.8%     | 31.5%     |
| Analog Service Gross Profit                     | 2,039.7                        | 1,986.2   | 2,043.3   | 2,101.5   | 2,157.4   | 2,252.1   | 2,372.4   | 2,487.3   | 2,596.0   |
| % of Total Analog Revenue                       | 72.4%                          | 75.7%     | 74.1%     | 72.8%     | 71.0%     | 69.9%     | 69.0%     | 68.4%     | 67.9%     |
| Digital Service Gross Profit                    | 157.3                          | 12.5      | 40.3      | 157.3     | 246.6     | 317.4     | 378.5     | 417.7     | 435.7     |
| % of Total Digital Revenue                      | 80.4%                          | 80.5%     | 80.7%     | 80.4%     | 77.2%     | 73.2%     | 69.2%     | 65.2%     | 61.2%     |
| HSCDS Gross Profit                              | 66.8                           | 10.0      | 31.3      | 66.8      | 166.8     | 325.2     | 463.7     | 620.0     | 777.8     |
| % of Total HSCDS Revenue                        | 80.3%                          | 76.5%     | 82.4%     | 80.3%     | 78.4%     | 76.9%     | 75.8%     | 75.7%     | 75.6%     |
| Total Gross Profit                              | \$2,263.8                      | \$2,008.6 | \$2,122.7 | \$2,325.6 | \$2,570.7 | \$2,894.8 | \$3,214.6 | \$3,525.8 | \$3,809.3 |
| % of Total Revenue                              | 73.1%                          | 75.8%     | 74.4%     | 73.5%     | 72.0%     | 71.0%     | 69.9%     | 69.2%     | 68.5%     |
| Other Operating Costs                           | 297.8                          | 225.9     | 276.7     | 306.9     | 332.4     | 367.2     | 400.9     | 439.9     | 470.2     |
| % of Total Revenues                             | 9.6%                           | 8.5%      | 9.7%      | 9.7%      | 9.3%      | 9.0%      | 8.7%      | 8.6%      | 8.5%      |
| Marketing Costs                                 | 113.2                          | 55.7      | 95.6      | 115.8     | 125.0     | 139.8     | 154.5     | 166.2     | 175.9     |
| % of Total Revenues                             | 3.7%                           | 2.1%      | 3.4%      | 3.7%      | 3.5%      | 3.4%      | 3.4%      | 3.3%      | 3.2%      |
| Gen. & Admin. Costs                             | 435.7                          | 555.1     | 438.6     | 446.7     | 477.9     | 528.1     | 565.2     | 608.4     | 648.9     |
| % of Total Revenues                             | 14.1%                          | 20.9%     | 15.4%     | 14.1%     | 13.4%     | 13.0%     | 12.3%     | 11.9%     | 11.7%     |
| Operating Costs                                 | \$1,678.5                      | \$1,479.5 | \$1,540.7 | \$1,709.1 | \$1,935.7 | \$2,216.7 | \$2,502.0 | \$2,785.4 | \$3,047.5 |
| % of Revenues                                   | 54.2%                          | 55.8%     | 54.0%     | 54.0%     | 54.2%     | 54.4%     | 54.4%     | 54.7%     | 54.8%     |
| EBITDA incl. New Serv. Start-up Losses x Teleph | \$1,417.0                      | \$1,172.0 | \$1,311.9 | \$1,456.2 | \$1,635.4 | \$1,859.7 | \$2,094.0 | \$2,310.5 | \$2,514.5 |
| Operating Margin                                | 45.8%                          | 44.2%     | 46.0%     | 46.0%     | 45.8%     | 45.6%     | 45.6%     | 45.3%     | 45.2%     |
| Add: Broadband Losses excl. Telephony           | \$0.0                          | \$0.0     | \$0.0     | \$0.0     | \$0.0     | \$0.0     | \$0.0     | \$0.0     | \$0.0     |
| EBITDA excl. New Serv. Start-up Losses          | \$1,417.0                      | \$1,172.0 | \$1,311.9 | \$1,456.2 | \$1,635.4 | \$1,859.7 | \$2,094.0 | \$2,310.5 | \$2,514.5 |
| Operating Margin                                | 45.8%                          | 44.2%     | 46.0%     | 46.0%     | 45.8%     | 45.6%     | 45.6%     | 45.3%     | 45.2%     |
| % Change  | 18.3%                          |           | 11.9%     | 11.0%     | 12.3%     | 13.7%     | 12.6%     | 10.3%     | 8.8%      |

E= Morgan Stanley Research Estimates

## Time Warner Cable (division of AOL Time Warner, AOL, \$22, Overweight-V, Industry View: In-Line, Target \$36), *Co-covered with Mary Meeker (212-761-8042)*

Time Warner Cable (TWC) should continue to generate 14.5–15.0% revenue growth in 2002, on the high end of the sector average. Approximately half of the incremental revenue will be driven by the cable modem product and 20% from digital video growth. We expect EBITDA margins to remain within the 45–46% range, which should result in 14.0–14.5% EBITDA growth.

We continue to expect TWC to incur cable capital expenditures of \$1.6–1.7 billion in 2002, approximately 50% of which is success-based, or related to the expansion of TWC's cable modem and digital cable subscriber base. We expect TWC to spend approximately \$75 million in initial capital outlays related to telephony in 2002. Based on our \$3.65 billion EBITDA forecast in 2002, TWC is well positioned to cover its capital expenditure requirements and contribute FCF to parent AOL Time Warner.

### Digital Video Forecast

We are reducing our 2002 digital video addition forecast by approximately 100,000 subscribers from 1.4 million to 1.3 million. We expect 2002 net additions to be down 10% from 2001 levels. We project TWC to reach 4.25 million digital subscriptions by the end of 2002, representing 37–38% basic subscriber penetration. In 1Q02, TWC should add 22,500–23,000 digital subscribers per week, representing a 17–18% decline from 1Q01 weekly additions. Reflecting the seasonality of subscriber growth, we expect digital additions to be stronger in the second half of 2002, accounting for 55–60% of annual additions.

We expect 2002 net adds to be down 10% from 2001 levels. TWC is second in digital penetration with 38% of basic subs at YE02.

We continue to expect TWC to offer VOD to 40% of its footprint by the end of 2002, or approximately 1.7 million digital subscribers. To date TWC has deployed VOD service in three markets, projected to reach 14 by the end of 2002. We estimate that TWC generates about \$13 of incremental ARPU per digital subscriber, excluding pay per view revenue. There is considerable upside in our digital revenue forecasts if the rollout of VOD can boost

PPV purchases from our current estimate of one purchase per digital subscriber per month in 2002.

In addition, the commercial launch of subscription VOD could provide additional upside through a combination of increased premium penetration and premium ARPU. The impact of both VOD and S-VOD will likely begin to be felt in 1H03.

### Cable Modem Forecast

We anticipate TWC to add 1.1–1.2 million broadband cable modem subscribers in 2002, bringing its broadband subscriber base up to approximately 3.0 million, or approximately 16–17% of homes passed. Of this total, we expect 160,000–165,000 to be “wholesale” subscribers, served by one of the multiple ISPs deployed across TWC's footprint. We anticipate the vast majority of wholesale subscribers will use AOL as their broadband ISP.

The addition of wholesale ISPs into TWC's data subscriber base will place some pressure on data ARPU, which we expect will be more than offset on the EBITDA line by higher operating margins on wholesale subscribers. We assume all marketing and customer service costs of AOL broadband subscribers across TWC's footprint to be allocated to AOL. Despite the lower ARPU on new wholesale subscribers, we expect total ARPU to increase 8–9% in 2002, fueled by a 14–15% increase in proprietary service (Roadrunner) ARPU in 2002, based on previously announced rate increases from \$40 to \$45.

TWC should continue to generate fully allocated EBITDA margins of 30–31% on its data product in 2002. This equates to approximately \$13.00 per average broadband subscriber. In 2003, we expect the influx of wholesale subscribers and overall fixed cost leverage to boost EBITDA margins to 46–47%, or roughly \$17.00 per average broadband subscriber. TWC's broadband additions should be split roughly 50–50 between wholesale and proprietary subscribers over the longer term.

Exhibit 75  
AOL Time Warner  
Broadband Cable Drivers

Dollars in Millions

|                                  | Pro Forma  |            |            | 1Q01       | 2Q01       | 3Q01       | 4Q01       | 1Q02E      | 2Q02E      | 3Q02E      | 4Q02E      |
|----------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
|                                  | 2000       | 2001E      | 2002E      |            |            |            |            |            |            |            |            |
| <b>Broadband Subscribers</b>     |            |            |            |            |            |            |            |            |            |            |            |
| Basic                            | 11,158,000 | 11,213,790 | 11,269,859 | 11,196,500 | 11,087,125 | 11,085,792 | 11,213,790 | 11,236,218 | 11,241,824 | 11,247,431 | 11,269,859 |
| Pro Forma Basic Growth %         | 1.4%       | 0.5%       | 0.5%       | 0.7%       | 0.7%       | 0.4%       | 0.5%       | 0.3%       | 0.5%       | 0.5%       | 0.5%       |
| Basic ARPU                       | \$29.40    | \$30.87    | \$32.41    | \$30.87    | \$30.87    | \$30.87    | \$30.87    | \$32.41    | \$32.41    | \$32.41    | \$32.41    |
| Prog. Exp as % of Analog Revs    | 24.4%      | 22.6%      | 21.6%      | 29.5%      | 28.6%      | 28.5%      | 27.4%      | 30.6%      | 29.7%      | 29.8%      | 28.5%      |
| Per Sub Prog. Exp Growth %       | 3.3%       | 6.2%       | 8.6%       | 4.5%       | 5.5%       | 6.6%       | 8.2%       | 8.7%       | 8.6%       | 8.6%       | 8.5%       |
| <b>Digital Video Subscribers</b> | 1,544,200  | 2,976,259  | 4,253,800  | 1,924,200  | 2,259,900  | 2,574,800  | 2,998,800  | 3,295,530  | 3,555,530  | 3,887,830  | 4,253,800  |
| Weekly Additions                 | 22,196     | 27,155     | 24,568     | 27,692     | 25,823     | 24,231     | 32,608     | 22,825     | 20,800     | 25,500     | 28,214     |
| ARPU                             | \$13.39    | \$13.00    | \$13.00    | \$13.00    | \$13.00    | \$13.00    | \$13.00    | \$13.00    | \$13.00    | \$13.00    | \$13.00    |
| Basic Sub Penetration            | 14.0%      | 26.3%      | 37.7%      | 17.2%      | 20.4%      | 23.2%      | 26.7%      | 29.3%      | 31.6%      | 34.6%      | 37.7%      |
| Dig. Programming Expense %       | 30.0%      | 35.8%      | 40.0%      | 30.0%      | 30.0%      | 40.0%      | 40.0%      | 40.0%      | 40.0%      | 40.0%      | 40.0%      |
| <b>Cable Modem Subscribers</b>   | 879,780    | 1,782,818  | 2,952,818  | 1,008,190  | 1,310,370  | 1,544,730  | 1,782,818  | 2,081,818  | 2,315,818  | 2,614,818  | 2,952,818  |
| Weekly Additions                 | 879,780    | 17,366     | 22,500     | 16,955     | 16,168     | 18,828     | 18,314     | 23,800     | 18,000     | 23,000     | 26,000     |
| ARPU                             | \$42.53    | \$40.31    | \$42.10    | \$40.98    | \$40.35    | \$40.22    | \$39.95    | \$41.56    | \$40.99    | \$42.88    | \$42.67    |
| Basic Sub Penetration            | 7.9%       | 15.9%      | 26.2%      | 9.8%       | 11.8%      | 13.9%      | 15.9%      | 18.5%      | 20.6%      | 23.2%      | 26.2%      |
| Affiliate Fee as % of Revenue    | 25.0%      | 25.6%      | 24.2%      | 25.2%      | 25.6%      | 25.6%      | 25.8%      | 24.0%      | 24.2%      | 24.2%      | 24.2%      |
| <b>Broadband Fixed Costs (1)</b> | \$1,443.9  | \$1,750.0  | \$1,954.6  | \$372.5    | \$436.7    | \$456.7    | \$484.1    | \$430.3    | \$472.6    | \$500.9    | \$550.8    |
| Fixed Costs (% Change)           | 5.6%       | 21.2%      | 11.7%      | 6.7%       | 15.5%      | 30.5%      | 32.0%      | 15.5%      | 8.2%       | 9.7%       | 13.8%      |
| <b>Total Capex</b>               | \$2,158.0  | \$2,221.0  | \$1,752.9  | \$577.0    | \$564.0    | \$485.0    | \$595.0    | \$335.8    | \$503.7    | \$503.7    | \$335.8    |

E= Morgan Stanley Research Estimates

Broadband Cable Television – April 5, 2002

Please see the important disclosures at the end of this report.

Exhibit 76

**AOL Time Warner****Time Warner Cable Revenue and Operating Cash Flow Comparisons, Quarterly**

(\$ Millions)

|   | 2001             |                  |                  |                  | 2002E            |                  |                  |                  |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|   | 1Q               | 2Q               | 3Q               | 4Q               | 1QE              | 2QE              | 3QE              | 4QE              |
| <b>Cable Television/Telephony</b>               |                  |                  |                  |                  |                  |                  |                  |                  |
| Core Cable                                      | \$1,322.7        | \$1,371.9        | \$1,392.0        | \$1,470.2        | \$1,392.5        | \$1,448.9        | \$1,461.0        | \$1,549.4        |
| Advanced Analog                                 | 112.6            | 111.6            | 110.5            | 108.7            | 107.1            | 106.1            | 105.0            | 103.2            |
| Digital Cable                                   | 68.0             | 81.6             | 94.3             | 108.7            | 122.7            | 133.6            | 145.1            | 158.7            |
| High Speed Data Services                        | 121.7            | 145.9            | 172.2            | 199.4            | 240.9            | 270.4            | 317.2            | 356.4            |
| <b>Total Cable Television Services</b>          | <b>\$1,625.0</b> | <b>\$1,711.0</b> | <b>\$1,769.0</b> | <b>\$1,887.0</b> | <b>\$1,863.2</b> | <b>\$1,959.0</b> | <b>\$2,028.3</b> | <b>\$2,167.7</b> |
| Telephony Revenue                               | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              |
| <b>Total Cable Television/Telephony Revenue</b> | <b>\$1,625.0</b> | <b>\$1,711.0</b> | <b>\$1,769.0</b> | <b>\$1,887.0</b> | <b>\$1,863.2</b> | <b>\$1,959.0</b> | <b>\$2,028.3</b> | <b>\$2,167.7</b> |
| % Change  | 12.3%            | 13.9%            | 17.1%            | 18.4%            | 14.7%            | 14.5%            | 14.7%            | 14.9%            |
| <b>Cable Television EBITDA</b>                  | <b>\$768.0</b>   | <b>\$777.0</b>   | <b>\$791.0</b>   | <b>\$863.0</b>   | <b>\$858.9</b>   | <b>\$896.4</b>   | <b>\$917.1</b>   | <b>\$986.1</b>   |
| Telephony EBITDA                                | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              |
| <b>Total Cable/Telephony EBITDA</b>             | <b>\$768.0</b>   | <b>\$777.0</b>   | <b>\$791.0</b>   | <b>\$863.0</b>   | <b>\$858.9</b>   | <b>\$896.4</b>   | <b>\$917.1</b>   | <b>\$986.1</b>   |
| % Change  | 15.3%            | 13.4%            | 10.9%            | 12.5%            | 11.8%            | 15.4%            | 15.9%            | 14.3%            |
| <b>Cable/Telephony EBITDA Margins</b>           |                  |                  |                  |                  |                  |                  |                  |                  |
| Core Cable Television                           | 47.3%            | 45.4%            | 44.7%            | 45.7%            | 46.1%            | 45.8%            | 45.2%            | 45.5%            |
| Total Cable Television/Telephony                | 47.3%            | 45.4%            | 44.7%            | 45.7%            | 46.1%            | 45.8%            | 45.2%            | 45.5%            |
| <b>Primestar Operations</b>                     |                  |                  |                  |                  |                  |                  |                  |                  |
| Revenues  | \$0.0            | \$0.0            | \$0.0            | \$0.0            | \$0.0            | \$0.0            | \$0.0            | \$0.0            |
| Operating Cash Flow                             | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              |
| Operating Cash Flow Margin                      |                  |                  |                  |                  |                  |                  |                  |                  |
| <b>Gains from cable television sales</b>        | <b>0.0</b>       | <b>0.0</b>       | <b>0.0</b>       | <b>0.0</b>       | <b>0.0</b>       | <b>0.0</b>       | <b>0.0</b>       | <b>0.0</b>       |
| <b>Total Revenue</b>                            | <b>\$1,625.0</b> | <b>\$1,711.0</b> | <b>\$1,769.0</b> | <b>\$1,887.0</b> | <b>\$1,863.2</b> | <b>\$1,959.0</b> | <b>\$2,028.3</b> | <b>\$2,167.7</b> |
| % Change  | 12.3%            | 13.9%            | 17.1%            | 18.4%            | 14.7%            | 14.5%            | 14.7%            | 14.9%            |
| <b>Total EBITDA</b>                             | <b>768.0</b>     | <b>777.0</b>     | <b>791.0</b>     | <b>863.0</b>     | <b>858.9</b>     | <b>896.4</b>     | <b>917.1</b>     | <b>986.1</b>     |
| Operating Cash Flow Margin                      | 47.3%            | 45.4%            | 44.7%            | 45.7%            | 46.1%            | 45.8%            | 45.2%            | 45.5%            |
| % Change  | 10.7%            | 13.4%            | 10.9%            | 12.5%            | 11.8%            | 15.4%            | 15.9%            | 14.3%            |
| <b>Depreciation</b>                             | <b>242.0</b>     | <b>272.0</b>     | <b>291.0</b>     | <b>306.0</b>     | <b>279.9</b>     | <b>279.9</b>     | <b>279.9</b>     | <b>279.9</b>     |
|   | 14.9%            | 15.9%            | 16.4%            | 16.2%            | 15.0%            | 14.3%            | 13.8%            | 12.9%            |
| <b>EBITA</b>                                    | <b>\$526.0</b>   | <b>\$505.0</b>   | <b>\$500.0</b>   | <b>\$557.0</b>   | <b>\$579.0</b>   | <b>\$616.4</b>   | <b>\$637.2</b>   | <b>\$706.1</b>   |
| <b>EBITA Margin</b>                             | <b>32.4%</b>     | <b>29.5%</b>     | <b>28.3%</b>     | <b>29.5%</b>     | <b>31.1%</b>     | <b>31.5%</b>     | <b>31.4%</b>     | <b>32.6%</b>     |
| % Change  | 6.2%             | 4.9%             | 1.5%             | 4.6%             | 10.1%            | 22.1%            | 27.4%            | 26.8%            |

E= Morgan Stanley Research Estimates

Broadband Cable Television – April 5, 2002

Please see the important disclosures at the end of this report.

Exhibit 77

## AOL Time Warner

## Time Warner Cable Revenue and Operating Cash Flow Comparisons, 2000-2006E

(\$ Millions)

|   | 2000             | 2001             | 2002E            | 2003E            | 2004E             | 2005E             | 2006E             |
|---|------------------|------------------|------------------|------------------|-------------------|-------------------|-------------------|
| <b>Cable Television/Telephony</b>               |                  |                  |                  |                  |                   |                   |                   |
| Core Cable                                      | \$5,133.7        | \$5,556.8        | \$5,851.8        | \$6,253.4        | \$6,676.7         | \$7,115.2         | \$7,599.7         |
| Advanced Analog                                 | 458.9            | 443.4            | 421.4            | 414.4            | 405.1             | 394.4             | 382.0             |
| Digital Cable                                   | 158.6            | 352.6            | 560.2            | 788.7            | 999.8             | 1,183.4           | 1,358.5           |
| High Speed Data Services                        | 302.8            | 639.3            | 1,184.8          | 1,678.6          | 2,123.8           | 2,553.4           | 2,941.6           |
| <b>Total Cable Television Services</b>          | <b>\$6,054.0</b> | <b>\$6,992.0</b> | <b>\$8,018.2</b> | <b>\$9,135.1</b> | <b>\$10,205.4</b> | <b>\$11,246.4</b> | <b>\$12,281.8</b> |
| Telephony Revenue                               | 0.0              | 0.0              | 0.0              | 34.1             | 172.6             | 512.3             | 1,122.5           |
| <b>Total Cable Television/Telephony Revenue</b> | <b>\$6,054.0</b> | <b>\$6,992.0</b> | <b>\$8,018.2</b> | <b>\$9,169.2</b> | <b>\$10,378.0</b> | <b>\$11,758.7</b> | <b>\$13,404.4</b> |
| % Change  | 12.7%            | 15.5%            | 14.7%            | 14.4%            | 13.2%             | 13.3%             | 14.0%             |
| <b>Cable Television EBITDA</b>                  | <b>\$2,831.0</b> | <b>\$3,199.0</b> | <b>\$3,658.4</b> | <b>\$4,162.9</b> | <b>\$4,715.1</b>  | <b>\$5,191.6</b>  | <b>\$5,651.1</b>  |
| Telephony EBITDA                                | 0.0              | 0.0              | 0.0              | 11.6             | 67.9              | 202.6             | 470.0             |
| <b>Total Cable/Telephony EBITDA</b>             | <b>\$2,831.0</b> | <b>\$3,199.0</b> | <b>\$3,658.4</b> | <b>\$4,174.4</b> | <b>\$4,782.9</b>  | <b>\$5,394.3</b>  | <b>\$6,121.1</b>  |
| % Change  | 14.8%            | 13.0%            | 14.4%            | 14.1%            | 14.6%             | 12.8%             | 13.5%             |
| <b>Cable/Telephony EBITDA Margins</b>           |                  |                  |                  |                  |                   |                   |                   |
| Core Cable Television                           | 46.8%            | 45.8%            | 45.6%            | 45.6%            | 46.2%             | 46.2%             | 46.0%             |
| Total Cable Television/Telephony                | 46.8%            | 45.8%            | 45.6%            | 45.5%            | 46.1%             | 45.9%             | 45.7%             |
| <b>Primestar Operations</b>                     |                  |                  |                  |                  |                   |                   |                   |
| Revenues  | \$0.0            | \$0.0            | \$0.0            | \$0.0            | \$0.0             | \$0.0             | \$0.0             |
| Operating Cash Flow                             | 0.0              | 0.0              | 0.0              | 0.0              | 0.0               | 0.0               | 0.0               |
| Operating Cash Flow Margin                      | NA               | NA               | NA               | NA               | NA                | NA                | NA                |
| <b>Gains from cable television sales</b>        | <b>28.0</b>      | <b>0.0</b>       | <b>0.0</b>       | <b>0.0</b>       | <b>0.0</b>        | <b>0.0</b>        | <b>0.0</b>        |
| <b>Total Revenue</b>                            | <b>\$6,054.0</b> | <b>\$6,992.0</b> | <b>\$8,018.2</b> | <b>\$9,169.2</b> | <b>\$10,378.0</b> | <b>\$11,758.7</b> | <b>\$13,404.4</b> |
| % Change  | 12.7%            | 15.5%            | 14.7%            | 14.4%            | 13.2%             | 13.3%             | 14.0%             |
| <b>Total EBITDA</b>                             | <b>2,859.0</b>   | <b>3,199.0</b>   | <b>3,658.4</b>   | <b>4,174.4</b>   | <b>4,782.9</b>    | <b>5,394.3</b>    | <b>6,121.1</b>    |
| Operating Cash Flow Margin                      | 47.2%            | 45.8%            | 45.6%            | 45.5%            | 46.1%             | 45.9%             | 45.7%             |
| % Change  | -21.1%           | 11.9%            | 14.4%            | 14.1%            | 14.6%             | 12.8%             | 13.5%             |
| <b>Depreciation</b>                             | <b>857.0</b>     | <b>1,111.0</b>   | <b>1,119.7</b>   | <b>1,175.9</b>   | <b>1,234.9</b>    | <b>1,312.1</b>    | <b>1,403.5</b>    |
|   | 14.2%            | 15.9%            | 14.0%            | 12.8%            | 11.9%             | 11.2%             | 10.5%             |
| <b>EBITA</b>                                    | <b>\$2,002.0</b> | <b>\$2,088.0</b> | <b>\$2,538.7</b> | <b>\$2,998.5</b> | <b>\$3,548.0</b>  | <b>\$4,082.2</b>  | <b>\$4,717.6</b>  |
| EBITA Margin                                    | 33.1%            | 29.9%            | 31.7%            | 32.7%            | 34.2%             | 34.7%             | 35.2%             |
| % Change  | -29.4%           | 4.3%             | 21.6%            | 18.1%            | 18.3%             | 15.1%             | 15.6%             |

E= Morgan Stanley Research Estimates

Broadband Cable Television – April 5, 2002

Please see the important disclosures at the end of this report.

Exhibit 78

**AOL Time Warner**
**Time Warner Cable Consolidated Cable Television Operations, Quarterly**

(\$ Millions except per data)

|  | 2001       |            |            |            | 2002E      |            |            |            |
|--|------------|------------|------------|------------|------------|------------|------------|------------|
|  | 1Q         | 2Q         | 3Q         | 4Q         | 1QE        | 2QE        | 3QE        | 4QE        |
| <b>Homes Passed</b>                                  | 18,049,750 | 18,026,800 | 18,126,250 | 18,265,650 | 18,334,000 | 18,402,000 | 18,471,000 | 18,540,000 |
| % Change   | 2.4%       | 1.8%       | 1.8%       | 1.9%       | 1.6%       | 2.1%       | 1.9%       | 1.5%       |
| <b>Basic Subscribers</b>                             | 11,196,500 | 11,087,125 | 11,085,792 | 11,213,790 | 11,236,218 | 11,241,824 | 11,247,431 | 11,269,859 |
| % Change   | 0.9%       | 0.4%       | 0.4%       | 0.5%       | 0.4%       | 1.4%       | 1.5%       | 0.5%       |
| Homes Passed Penetration                             | 62.0%      | 61.5%      | 61.2%      | 61.4%      | 61.3%      | 61.1%      | 60.9%      | 60.8%      |
| <b>Advanced Analog Subscribers</b>                   | 4,153,550  | 4,112,950  | 4,072,350  | 3,981,000  | 3,950,550  | 3,909,950  | 3,869,350  | 3,775,000  |
| % Change   | -4.0%      | -2.9%      | -1.6%      | -4.9%      | -4.9%      | -4.9%      | -5.0%      | -5.2%      |
| Homes Marketed                                       | 9,866,462  | 9,941,778  | 10,017,095 | 10,092,411 | 10,167,728 | 10,243,044 | 10,318,361 | 10,142,873 |
| Adv. Analog Subscriber to Homes Marketed             | 42.1%      | 41.4%      | 40.7%      | 39.4%      | 38.9%      | 38.2%      | 37.5%      | 37.2%      |
| Basic Subscriber Penetration                         | 37.1%      | 37.1%      | 36.7%      | 35.5%      | 35.2%      | 34.8%      | 34.4%      | 33.5%      |
| <b>Premium Subscriptions</b>                         | 6,839,540  | 6,772,727  | 6,771,912  | 6,856,408  | 6,870,120  | 6,873,549  | 6,876,977  | 6,875,601  |
| % Change   | 0.4%       | -0.4%      | -0.7%      | 0.6%       | 0.4%       | 1.5%       | 1.6%       | 0.3%       |
| Basic Subscriber Penetration                         | 61.1%      | 61.1%      | 61.1%      | 61.1%      | 61.1%      | 61.1%      | 61.1%      | 61.0%      |
| <b>Digital Subscriptions</b>                         | 1,924,200  | 2,259,900  | 2,574,900  | 2,998,800  | 3,295,530  | 3,555,530  | 3,887,030  | 4,253,808  |
| % Change   | 248.8%     | 182.5%     | 120.1%     | 91.7%      | 71.3%      | 57.3%      | 51.0%      | 41.9%      |
| Homes Passed Penetration                             | 10.7%      | 12.5%      | 14.2%      | 16.4%      | 18.0%      | 19.3%      | 21.0%      | 22.9%      |
| Basic Subscriber Penetration                         | 17.2%      | 20.4%      | 23.2%      | 26.7%      | 29.3%      | 31.6%      | 34.6%      | 37.7%      |
| Premium Subscriber Penetration                       | 28.1%      | 33.4%      | 38.0%      | 43.7%      | 48.0%      | 51.7%      | 56.5%      | 61.9%      |
| <b>HSCDS Subscribers</b>                             | 1,100,190  | 1,310,370  | 1,544,730  | 1,782,810  | 2,081,810  | 2,315,810  | 2,614,810  | 2,952,810  |
| % Change   | 164.7%     | 145.9%     | 131.0%     | 102.6%     | 89.2%      | 76.7%      | 69.3%      | 65.6%      |
| Homes Passed Penetration                             | 6.1%       | 7.3%       | 8.5%       | 9.8%       | 11.4%      | 12.6%      | 14.2%      | 15.9%      |
| Basic Subscriber Penetration                         | 9.8%       | 11.8%      | 13.9%      | 15.9%      | 18.5%      | 20.6%      | 23.2%      | 26.2%      |
| <b>Monthly Reg. Rev. per Basic Sub.</b>              | \$30.87    | \$30.87    | \$30.87    | \$30.87    | \$32.41    | \$32.41    | \$32.41    | \$32.41    |
| % Change   | 5.0%       | 5.0%       | 5.0%       | 5.0%       | 5.0%       | 5.0%       | 5.0%       | 5.0%       |
| <b>Monthly Reg. &amp; Unreg. Rev. per Basic Sub.</b> | \$39.45    | \$41.04    | \$41.65    | \$43.95    | \$41.35    | \$42.97    | \$43.32    | \$45.88    |
| % Change   | 3.7%       | 5.4%       | 8.9%       | 11.8%      | 4.8%       | 4.7%       | 4.0%       | 4.4%       |
| <b>Monthly Adv. Analog Rev. per Adv. Analog Sub.</b> | \$9.00     | \$9.00     | \$9.00     | \$9.00     | \$9.00     | \$9.00     | \$9.00     | \$9.00     |
| % Change   | 0.0%       | 0.0%       | 0.0%       | 0.0%       | 0.0%       | 0.0%       | 0.0%       | 0.0%       |
| <b>Monthly Digital Video Rev. per Digital Sub.</b>   | \$13.00    | \$13.00    | \$13.00    | \$13.00    | \$13.00    | \$13.00    | \$13.00    | \$13.00    |
| % Change   | 8.3%       | -7.1%      | -18.8%     | -18.8%     | 0.0%       | 0.0%       | 0.0%       | 0.0%       |
| <b>Monthly HSCDS Rev. per HSCDS Sub.</b>             | 40.98      | 40.35      | 40.22      | 39.95      | 41.56      | 40.99      | 42.88      | 42.67      |
| % Change   | -12.1%     | -10.9%     | -10.2%     | -13.4%     | 1.4%       | 1.6%       | 6.6%       | 6.8%       |
| <b>Regulated Analog Revenues</b>                     | \$1,035.1  | \$1,031.8  | \$1,031.8  | \$1,032.6  | \$1,091.5  | \$1,092.9  | \$1,093.2  | \$1,094.5  |
| % Change   | 6.2%       | 5.7%       | 5.7%       | 5.5%       | 5.4%       | 5.9%       | 5.9%       | 6.0%       |
| <b>Premium and Non-regulated Revenues</b>            | \$287.6    | \$340.1    | \$360.2    | \$437.6    | \$301.0    | \$356.0    | \$367.8    | \$454.8    |
| % Change   | 0.3%       | 7.2%       | 22.7%      | 32.6%      | 4.7%       | 4.7%       | 2.1%       | 3.9%       |
| <b>Adv. Analog Revenue</b>                           | \$112.6    | \$111.6    | \$110.5    | \$108.7    | \$107.1    | \$106.1    | \$105.0    | \$103.2    |
| % Change   | -4.5%      | -3.4%      | -2.3%      | -3.2%      | -4.9%      | -4.9%      | -5.0%      | -5.1%      |
| <b>Digital Video Revenues</b>                        | \$68.0     | \$81.6     | \$94.3     | \$108.7    | \$122.7    | \$133.6    | \$145.1    | \$158.7    |
| % Change   | 293.0%     | 187.4%     | 99.4%      | 65.6%      | 80.4%      | 63.7%      | 53.9%      | 46.1%      |
| <b>HSCDS Revenues</b>                                | \$121.7    | \$145.9    | \$172.2    | \$199.4    | \$240.9    | \$270.4    | \$317.2    | \$356.4    |
| % Change   | 140.9%     | 126.5%     | 113.4%     | 86.1%      | 97.9%      | 85.3%      | 84.1%      | 78.7%      |
| <b>Total Revenue</b>                                 | \$1,625.0  | \$1,711.0  | \$1,769.0  | \$1,887.0  | \$1,863.2  | \$1,959.0  | \$2,028.3  | \$2,167.7  |
| % Change   | 12.3%      | 13.9%      | 17.1%      | 18.4%      | 14.7%      | 14.5%      | 14.7%      | 14.9%      |

E= Morgan Stanley Research Estimates

Broadband Cable Television – April 5, 2002

Please see the important disclosures at the end of this report.

Exhibit 79

## AOL Time Warner

## Time Warner Cable Consolidated Cable Television Operations (continued)

(\$ Millions except per data)

|   | 2001             |                  |                  |                  | 2002E            |                  |                  |                  |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|   | 1Q               | 2Q               | 3Q               | 4Q               | 1QE              | 2QE              | 3QE              | 4QE              |
| <b>Total Revenue</b>                      | <b>\$1,625.0</b> | <b>\$1,711.0</b> | <b>\$1,769.0</b> | <b>\$1,887.0</b> | <b>\$1,863.2</b> | <b>\$1,959.0</b> | <b>\$2,028.3</b> | <b>\$2,167.7</b> |
| % Change                                  | 12.3%            | 13.9%            | 17.1%            | 18.4%            | 14.7%            | 14.5%            | 14.7%            | 14.9%            |
| <b>Analog Programming Costs</b>           | <b>\$390.3</b>   | <b>\$392.7</b>   | <b>\$397.0</b>   | <b>\$403.3</b>   | <b>\$426.0</b>   | <b>\$430.4</b>   | <b>\$435.3</b>   | <b>\$441.6</b>   |
| % of Total Analog Revenue                 | 29.5%            | 28.6%            | 28.5%            | 27.4%            | 30.6%            | 29.7%            | 29.8%            | 28.5%            |
| <b>Adv. Analog Programming Costs</b>      | <b>\$43.1</b>    | <b>\$42.8</b>    | <b>\$42.4</b>    | <b>\$41.7</b>    | <b>\$41.0</b>    | <b>\$40.7</b>    | <b>\$40.3</b>    | <b>\$39.6</b>    |
| % of Total Adv. Analog Revenue            | 38.3%            | 38.3%            | 38.3%            | 38.3%            | 38.3%            | 38.3%            | 38.3%            | 38.3%            |
| <b>Digital Prog. &amp; Direct Costs</b>   | <b>\$20.4</b>    | <b>\$24.5</b>    | <b>\$37.7</b>    | <b>\$43.5</b>    | <b>\$49.1</b>    | <b>\$53.4</b>    | <b>\$58.1</b>    | <b>\$63.5</b>    |
| % of Total Digital Revenue                | 30.0%            | 30.0%            | 40.0%            | 40.0%            | 40.0%            | 40.0%            | 40.0%            | 40.0%            |
| <b>HSCDS Direct Operating Costs</b>       | <b>\$30.6</b>    | <b>\$37.3</b>    | <b>\$44.2</b>    | <b>\$51.5</b>    | <b>\$57.8</b>    | <b>\$65.5</b>    | <b>\$76.7</b>    | <b>\$86.2</b>    |
| % of Total HSCDS Revenue                  | 25.2%            | 25.6%            | 25.6%            | 25.8%            | 24.0%            | 24.2%            | 24.2%            | 24.2%            |
| <b>Total Programming and Direct Costs</b> | <b>\$484.5</b>   | <b>\$497.3</b>   | <b>\$521.3</b>   | <b>\$539.9</b>   | <b>\$574.0</b>   | <b>\$590.0</b>   | <b>\$610.3</b>   | <b>\$630.8</b>   |
| % of Total Revenue                        | 29.8%            | 29.1%            | 29.5%            | 28.6%            | 30.8%            | 30.1%            | 30.1%            | 29.1%            |
| <b>Analog Service Gross Profit</b>        | <b>932.4</b>     | <b>979.2</b>     | <b>994.9</b>     | <b>1,066.9</b>   | <b>966.5</b>     | <b>1,018.5</b>   | <b>1,025.7</b>   | <b>1,107.8</b>   |
| % of Total Analog Revenue                 | 70.5%            | 71.4%            | 71.5%            | 72.6%            | 69.4%            | 70.3%            | 70.2%            | 71.5%            |
| <b>Adv. Analog Gross Profit</b>           | <b>69.4</b>      | <b>68.8</b>      | <b>68.1</b>      | <b>67.0</b>      | <b>66.0</b>      | <b>65.4</b>      | <b>64.8</b>      | <b>63.6</b>      |
| % of Total Adv. Analog Revenue            | 61.7%            | 61.7%            | 61.7%            | 61.7%            | 61.7%            | 61.7%            | 61.7%            | 61.7%            |
| <b>Digital Service Gross Profit</b>       | <b>47.6</b>      | <b>57.1</b>      | <b>56.6</b>      | <b>65.2</b>      | <b>73.6</b>      | <b>80.2</b>      | <b>87.1</b>      | <b>95.2</b>      |
| % of Total Digital Revenue                | 70.0%            | 70.0%            | 60.0%            | 60.0%            | 60.0%            | 60.0%            | 60.0%            | 60.0%            |
| <b>HSCDS Gross Profit</b>                 | <b>91.1</b>      | <b>108.6</b>     | <b>128.1</b>     | <b>147.9</b>     | <b>183.1</b>     | <b>204.9</b>     | <b>240.4</b>     | <b>270.2</b>     |
| % of Total HSCDS Revenue                  | 74.8%            | 74.4%            | 74.4%            | 74.2%            | 76.0%            | 75.8%            | 75.8%            | 75.8%            |
| <b>Total Gross Profit</b>                 | <b>\$1,140.5</b> | <b>\$1,213.7</b> | <b>\$1,247.7</b> | <b>\$1,347.1</b> | <b>\$1,289.2</b> | <b>\$1,369.0</b> | <b>\$1,418.0</b> | <b>\$1,536.8</b> |
| % of Total Revenue                        | 70.2%            | 70.9%            | 70.5%            | 71.4%            | 69.2%            | 69.9%            | 69.9%            | 70.9%            |
| <b>Other Operating Costs</b>              | <b>\$86.6</b>    | <b>\$86.4</b>    | <b>\$87.7</b>    | <b>\$88.3</b>    | <b>\$92.2</b>    | <b>\$99.5</b>    | <b>\$109.8</b>   | <b>\$111.2</b>   |
| % of Total Revenues                       | 5.3%             | 5.0%             | 5.0%             | 4.7%             | 4.9%             | 5.1%             | 5.4%             | 5.1%             |
| <b>Marketing Costs</b>                    | <b>\$97.5</b>    | <b>\$111.2</b>   | <b>\$119.4</b>   | <b>\$122.7</b>   | <b>\$124.8</b>   | <b>\$131.3</b>   | <b>\$135.9</b>   | <b>\$145.2</b>   |
| % of Total Revenues                       | 6.0%             | 6.5%             | 6.8%             | 6.5%             | 6.7%             | 6.7%             | 6.7%             | 6.7%             |
| <b>Gen. &amp; Admin. Costs</b>            | <b>\$188.4</b>   | <b>\$239.1</b>   | <b>\$249.6</b>   | <b>\$273.1</b>   | <b>\$213.3</b>   | <b>\$241.9</b>   | <b>\$255.3</b>   | <b>\$294.4</b>   |
| % of Total Revenues                       | 11.6%            | 14.0%            | 14.1%            | 14.5%            | 11.4%            | 12.3%            | 12.6%            | 13.6%            |
| <b>Operating Costs</b>                    | <b>\$857.0</b>   | <b>\$934.0</b>   | <b>\$978.0</b>   | <b>\$1,024.0</b> | <b>\$1,004.3</b> | <b>\$1,062.6</b> | <b>\$1,111.2</b> | <b>\$1,181.6</b> |
| % of Revenues                             | 52.7%            | 54.6%            | 55.3%            | 54.3%            | 53.9%            | 54.2%            | 54.8%            | 54.5%            |
| <b>Operating Cash Flow</b>                | <b>\$768.0</b>   | <b>\$777.0</b>   | <b>\$791.0</b>   | <b>\$863.0</b>   | <b>\$858.9</b>   | <b>\$896.4</b>   | <b>\$917.1</b>   | <b>\$986.1</b>   |
| Operating Margin                          | 47.3%            | 45.4%            | 44.7%            | 45.7%            | 46.1%            | 45.8%            | 45.2%            | 45.5%            |
| % Change                                  | 15.3%            | 13.4%            | 10.9%            | 12.5%            | 11.8%            | 15.4%            | 15.9%            | 14.3%            |

E= Morgan Stanley Research Estimates

Exhibit 80

## AOL Time Warner

## Time Warner Cable Consolidated Cable Television Operations, 2000-2006E

(\$ Millions except per data)

|   | 2000       | 2001       | 2002E      | 2003E      | 2004E      | 2005E      | 2006E      |
|---|------------|------------|------------|------------|------------|------------|------------|
| Homes Passed                                  | 17,918,850 | 18,265,650 | 18,540,000 | 18,818,100 | 19,100,372 | 19,386,877 | 19,677,680 |
| % Change                                      | 2.2%       | 1.9%       | 1.5%       | 1.5%       | 1.5%       | 1.5%       | 1.5%       |
| Basic Subscribers                             | 11,158,000 | 11,213,790 | 11,269,859 | 11,324,800 | 11,378,628 | 11,431,360 | 11,483,012 |
| % Change                                      | 1.4%       | 0.5%       | 0.5%       | 0.5%       | 0.5%       | 0.5%       | 0.5%       |
| Homes Passed Penetration                      | 62.3%      | 61.4%      | 60.8%      | 60.2%      | 59.6%      | 59.0%      | 58.4%      |
| Advanced Analog Subscribers                   | 4,184,000  | 3,981,000  | 3,775,000  | 3,567,000  | 3,357,000  | 3,144,000  | 2,928,000  |
| % Change                                      | -5.0%      | -4.9%      | -5.2%      | -5.5%      | -5.9%      | -6.3%      | -6.9%      |
| Homes Marketed                                | 9,791,145  | 10,092,411 | 10,142,873 | 10,192,320 | 10,240,765 | 10,288,224 | 10,334,710 |
| Adv. Analog Subscriber to Homes Marketed      | 42.7%      | 39.4%      | 37.2%      | 35.0%      | 32.8%      | 30.6%      | 28.3%      |
| Basic Subscriber Penetration                  | 37.5%      | 35.5%      | 33.5%      | 31.5%      | 29.5%      | 27.5%      | 25.5%      |
| Premium Subscriptions                         | 6,816,022  | 6,856,408  | 6,875,601  | 6,879,868  | 6,828,597  | 6,754,410  | 6,666,109  |
| % Change                                      | 1.0%       | 0.6%       | 0.3%       | 0.1%       | -0.7%      | -1.1%      | -1.3%      |
| Basic Subscriber Penetration                  | 61.1%      | 61.1%      | 61.0%      | 60.8%      | 60.0%      | 59.1%      | 58.1%      |
| Digital Subscriptions                         | 1,564,200  | 2,976,259  | 4,253,808  | 5,440,617  | 6,263,321  | 6,929,820  | 7,494,670  |
| % Change                                      | 281.5%     | 90.3%      | 42.9%      | 27.9%      | 15.1%      | 10.6%      | 8.2%       |
| Homes Passed Penetration                      | 8.7%       | 16.3%      | 22.9%      | 28.9%      | 32.8%      | 35.7%      | 38.1%      |
| Basic Subscriber Penetration                  | 14.0%      | 26.5%      | 37.7%      | 48.0%      | 55.0%      | 60.6%      | 65.3%      |
| Premium Subscriber Penetration                | 22.9%      | 43.4%      | 61.9%      | 79.1%      | 91.7%      | 102.6%     | 112.4%     |
| HSCDS Subscribers                             | 879,780    | 1,782,810  | 2,952,810  | 4,193,950  | 5,389,882  | 6,662,651  | 7,963,411  |
| % Change                                      | 186.7%     | 102.6%     | 65.6%      | 42.0%      | 28.5%      | 23.6%      | 19.5%      |
| Homes Passed Penetration                      | 4.9%       | 9.8%       | 15.9%      | 22.3%      | 28.2%      | 34.4%      | 40.5%      |
| Basic Subscriber Penetration                  | 7.9%       | 15.9%      | 26.2%      | 37.0%      | 47.4%      | 58.3%      | 69.3%      |
| Monthly Reg. Rev. per Basic Sub.              | \$29.40    | \$30.87    | \$32.41    | \$34.03    | \$35.74    | \$37.52    | \$39.40    |
| % Change                                      | 4.1%       | 5.0%       | 5.0%       | 5.0%       | 5.0%       | 5.0%       | 5.0%       |
| Monthly Reg. & Unreg. Rev. per Basic Sub.     | \$38.64    | \$41.52    | \$43.38    | \$46.13    | \$49.01    | \$51.99    | \$55.28    |
| % Change                                      | 0.6%       | 7.5%       | 4.5%       | 6.3%       | 6.3%       | 6.1%       | 6.3%       |
| Monthly Adv. Analog Rev. per Adv. Analog Sub. | \$8.90     | \$9.00     | \$9.00     | \$9.41     | \$9.75     | \$10.11    | \$10.49    |
| % Change                                      | -0.2%      | 1.1%       | 0.0%       | 4.5%       | 3.7%       | 3.7%       | 3.7%       |
| Monthly Digital Video Rev. per Digital Sub.   | \$13.39    | \$13.00    | \$13.00    | \$13.56    | \$14.24    | \$14.95    | \$15.70    |
| % Change                                      | 65.9%      | -2.9%      | 0.0%       | 4.3%       | 5.0%       | 5.0%       | 5.0%       |
| Monthly HSCDS Rev. per HSCDS Sub.             | \$42.53    | \$40.31    | \$42.10    | \$39.15    | \$36.93    | \$35.31    | \$33.52    |
| % Change                                      | -14.6%     | -5.2%      | 4.5%       | -7.0%      | -5.7%      | -4.4%      | -5.1%      |
| Regulated Analog Revenues                     | \$3,906.4  | \$4,131.4  | \$4,372.1  | \$4,613.9  | \$4,868.0  | \$5,135.4  | \$5,416.8  |
| % Change                                      | 10.0%      | 5.8%       | 5.8%       | 5.5%       | 5.5%       | 5.5%       | 5.5%       |
| Premium and Non-regulated Revenues            | \$1,227.3  | \$1,425.4  | \$1,479.7  | \$1,639.4  | \$1,808.7  | \$1,979.8  | \$2,183.0  |
| % Change                                      | -3.9%      | 16.1%      | 3.8%       | 10.8%      | 10.3%      | 9.5%       | 10.3%      |
| Adv. Analog Revenue                           | \$458.9    | \$443.4    | \$421.4    | \$414.4    | \$405.1    | \$394.4    | \$382.0    |
| % Change                                      | 14.3%      | -3.4%      | -5.0%      | -1.7%      | -2.2%      | -2.6%      | -3.1%      |
| Digital Video Revenues                        | \$158.6    | \$352.6    | \$560.2    | \$788.7    | \$999.8    | \$1,183.4  | \$1,358.5  |
| % Change                                      | 698.8%     | 122.3%     | 58.9%      | 40.8%      | 26.8%      | 18.4%      | 14.8%      |
| HSCDS Revenues                                | \$302.8    | \$639.3    | \$1,184.8  | \$1,678.6  | \$2,123.8  | \$2,553.4  | \$2,941.6  |
| % Change                                      | 146.7%     | 111.1%     | 85.3%      | 41.7%      | 26.5%      | 20.2%      | 15.2%      |
| Total Revenue                                 | \$6,054.0  | \$6,992.0  | \$8,018.2  | \$9,135.1  | \$10,205.4 | \$11,246.4 | \$12,281.8 |
| % Change                                      | 12.7%      | 15.5%      | 14.7%      | 13.9%      | 11.7%      | 10.2%      | 9.2%       |

E= Morgan Stanley Research Estimates

Broadband Cable Television – April 5, 2002

Please see the important disclosures at the end of this report.

## Exhibit 81

## AOL Time Warner

## Time Warner Cable Consolidated Television Operations, 2000-2006E (continued)

(\$ Millions except per data)

|   | 2000             | 2001             | 2002E            | 2003E            | 2004E             | 2005E             | 2006E             |
|---|------------------|------------------|------------------|------------------|-------------------|-------------------|-------------------|
| <b>Total Revenue</b>                      | <b>\$6,054.0</b> | <b>\$6,992.0</b> | <b>\$8,018.2</b> | <b>\$9,135.1</b> | <b>\$10,205.4</b> | <b>\$11,246.4</b> | <b>\$12,281.8</b> |
| % Change                                  | 12.7%            | 15.5%            | 14.7%            | 13.9%            | 11.7%             | 10.2%             | 9.2%              |
| <b>Analog Programming Costs</b>           | <b>\$1,480.0</b> | <b>\$1,583.4</b> | <b>\$1,733.3</b> | <b>\$1,914.1</b> | <b>\$2,079.0</b>  | <b>\$2,249.9</b>  | <b>\$2,442.3</b>  |
| % of Total Analog Revenue                 | 24.4%            | 22.6%            | 21.6%            | 21.0%            | 20.4%             | 20.0%             | 19.9%             |
| <b>Adv. Analog Programming Costs</b>      | <b>\$175.9</b>   | <b>\$170.0</b>   | <b>\$161.5</b>   | <b>\$159.5</b>   | <b>\$156.4</b>    | <b>\$152.7</b>    | <b>\$148.3</b>    |
| % of Total Adv. Analog Revenue            | 38.3%            | 38.3%            | 38.3%            | 38.5%            | 38.6%             | 38.7%             | 38.8%             |
| <b>Digital Prog. &amp; Direct Costs</b>   | <b>\$47.6</b>    | <b>\$126.1</b>   | <b>\$224.1</b>   | <b>\$315.5</b>   | <b>\$399.9</b>    | <b>\$473.4</b>    | <b>\$543.4</b>    |
| % of Total Digital Revenue                | 30.0%            | 35.8%            | 40.0%            | 40.0%            | 40.0%             | 40.0%             | 40.0%             |
| <b>HSCDS Direct Operating Costs</b>       | <b>\$75.6</b>    | <b>\$163.6</b>   | <b>\$286.3</b>   | <b>\$394.2</b>   | <b>\$500.7</b>    | <b>\$602.7</b>    | <b>\$694.9</b>    |
| % of Total HSCDS Revenue                  | 25.0%            | 25.6%            | 24.2%            | 23.5%            | 23.6%             | 23.6%             | 23.6%             |
| <b>Total Programming and Direct Costs</b> | <b>\$1,779.1</b> | <b>\$2,043.0</b> | <b>\$2,405.2</b> | <b>\$2,783.3</b> | <b>\$3,136.1</b>  | <b>\$3,478.6</b>  | <b>\$3,828.9</b>  |
| % of Total Revenue                        | 29.4%            | 29.2%            | 30.0%            | 30.5%            | 30.7%             | 30.9%             | 31.2%             |
| <b>Analog Service Gross Profit</b>        | <b>3,653.7</b>   | <b>3,973.4</b>   | <b>4,118.5</b>   | <b>4,339.2</b>   | <b>4,597.6</b>    | <b>4,865.3</b>    | <b>5,157.5</b>    |
| % of Total Analog Revenue                 | 71.2%            | 71.5%            | 70.4%            | 69.4%            | 68.9%             | 68.4%             | 67.9%             |
| <b>Adv. Analog Gross Profit</b>           | <b>283.0</b>     | <b>273.4</b>     | <b>259.9</b>     | <b>254.9</b>     | <b>248.7</b>      | <b>241.7</b>      | <b>233.7</b>      |
| % of Total Adv. Analog Revenue            | 61.7%            | 61.7%            | 61.7%            | 61.5%            | 61.4%             | 61.3%             | 61.2%             |
| <b>Digital Service Gross Profit</b>       | <b>111.0</b>     | <b>226.5</b>     | <b>336.1</b>     | <b>473.2</b>     | <b>599.9</b>      | <b>710.0</b>      | <b>815.1</b>      |
| % of Total Digital Revenue                | 70.0%            | 64.2%            | 60.0%            | 60.0%            | 60.0%             | 60.0%             | 60.0%             |
| <b>HSCDS Gross Profit</b>                 | <b>227.2</b>     | <b>475.7</b>     | <b>898.6</b>     | <b>1,284.4</b>   | <b>1,623.1</b>    | <b>1,950.7</b>    | <b>2,246.6</b>    |
| % of Total HSCDS Revenue                  | 75.0%            | 74.4%            | 75.8%            | 76.5%            | 76.4%             | 76.4%             | 76.4%             |
| <b>Total Gross Profit</b>                 | <b>\$4,274.9</b> | <b>\$4,949.0</b> | <b>\$5,613.1</b> | <b>\$6,351.7</b> | <b>\$7,069.4</b>  | <b>\$7,767.8</b>  | <b>\$8,452.9</b>  |
| % of Total Revenue                        | 70.6%            | 70.8%            | 70.0%            | 69.5%            | 69.3%             | 69.1%             | 68.8%             |
| <b>Other Operating Costs</b>              | <b>\$338.7</b>   | <b>\$349.0</b>   | <b>\$412.6</b>   | <b>\$453.9</b>   | <b>\$492.5</b>    | <b>\$537.0</b>    | <b>\$583.6</b>    |
| % of Total Revenues                       | 5.6%             | 5.0%             | 5.1%             | 5.0%             | 4.8%              | 4.8%              | 4.8%              |
| <b>Marketing Costs</b>                    | <b>\$329.8</b>   | <b>\$450.8</b>   | <b>\$537.2</b>   | <b>\$615.9</b>   | <b>\$634.0</b>    | <b>\$699.8</b>    | <b>\$761.2</b>    |
| % of Total Revenues                       | 5.4%             | 6.4%             | 6.7%             | 6.7%             | 6.2%              | 6.2%              | 6.2%              |
| <b>Gen. &amp; Admin. Costs</b>            | <b>\$775.4</b>   | <b>\$950.3</b>   | <b>\$1,004.9</b> | <b>\$1,119.0</b> | <b>\$1,227.8</b>  | <b>\$1,339.4</b>  | <b>\$1,457.0</b>  |
| % of Total Revenues                       | 12.8%            | 13.6%            | 12.5%            | 12.2%            | 12.0%             | 11.9%             | 11.9%             |
| <b>Operating Costs</b>                    | <b>\$3,223.0</b> | <b>\$3,793.0</b> | <b>\$4,359.8</b> | <b>\$4,972.2</b> | <b>\$5,490.3</b>  | <b>\$6,054.8</b>  | <b>\$6,630.8</b>  |
| % of Revenues                             | 53.2%            | 54.2%            | 54.4%            | 54.4%            | 53.8%             | 53.8%             | 54.0%             |
| <b>Operating Cash Flow</b>                | <b>\$2,831.0</b> | <b>\$3,199.0</b> | <b>\$3,658.4</b> | <b>\$4,162.9</b> | <b>\$4,715.1</b>  | <b>\$5,191.6</b>  | <b>\$5,651.1</b>  |
| Operating Margin                          | 46.8%            | 45.8%            | 45.6%            | 45.6%            | 46.2%             | 46.2%             | 46.0%             |
| % Change                                  | 14.8%            | 13.0%            | 14.4%            | 13.8%            | 13.3%             | 10.1%             | 8.8%              |

E= Morgan Stanley Research Estimates